Government Actuary's Department

Parliamentary Contributory Pension Fund

Valuation as at 1 April 2020
Report by the Scheme Actuary

29 July 2021

MARTIN CLARKE

Contents

1 Summary 3

2 Introduction 6

3 Developments since the 2017 valuation 8

4 Membership data and accounts 10

5 Actuarial assumptions 12

6 Valuation results – funding level 17

7 Valuation results – contribution requirement 19

8 Sensitivities 22

9 Conclusion 25

Appendix A: Summary of the main provisions of the Scheme as at 1 April 2020 for protected members 26

Appendix B: Summary of the main provisions of the Scheme for MPs and officeholder within IPSA's remit (non protected members) 28

Appendix C: Summary of the main provisions of the Scheme for Ministers 29

Appendix D: Principles under which valuation has been undertaken 30

Appendix E: Determination of Exchequer contribution rate 35

Appendix F: Funding objective and valuation method 37

Appendix G: Membership at 1 April 2020 40

Appendix H: Consolidated account for the period 1 April 2017 to 1 April 2020 42

Appendix I: Analysis of the investments of the Scheme 43

Appendix J: Assumptions 44

Appendix K: Risks and uncertainties 47

Appendix L: COVID-19 49

1 Summary

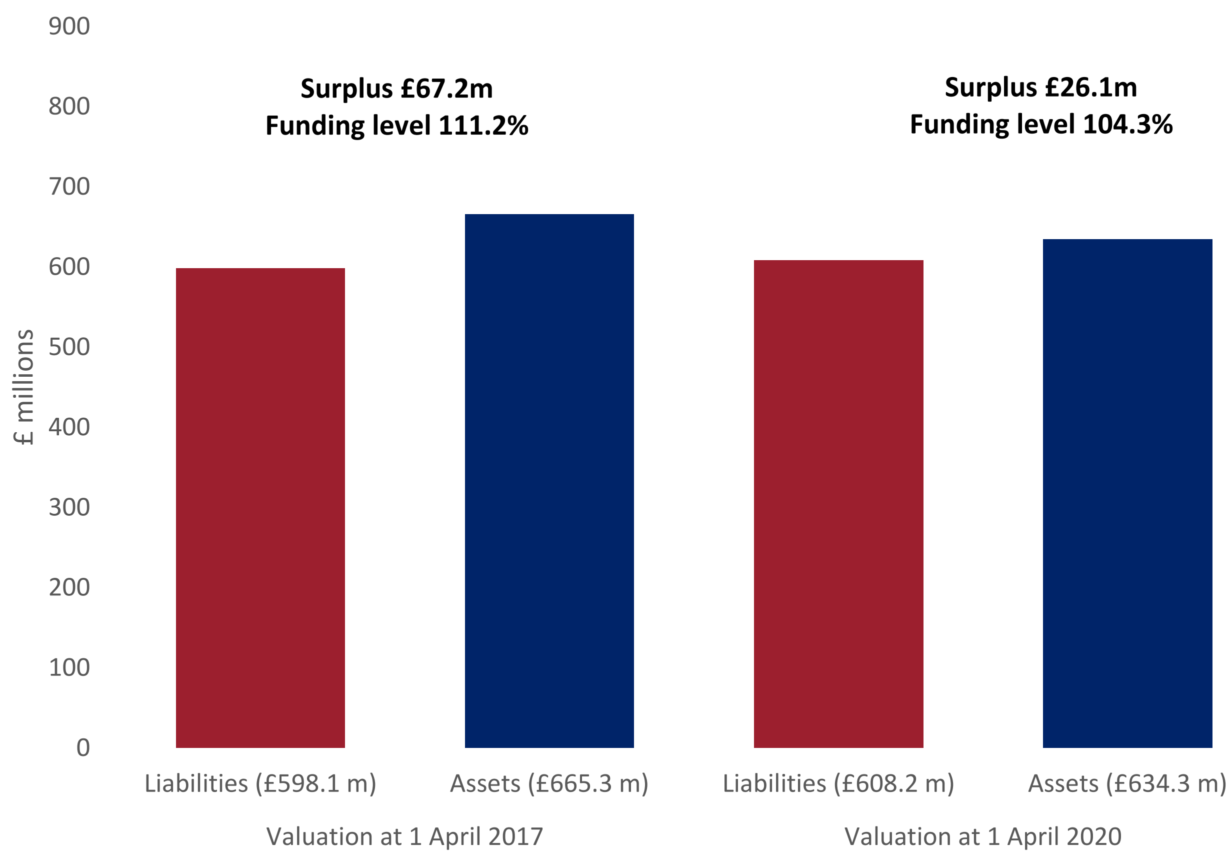
**To: The Trustees of the Parliamentary Contributory Pension Fund
The Minister for the Civil Service
The Independent Parliamentary Standards Authority
HM Treasury**

1.1 I have carried out an actuarial valuation of the Parliamentary Contributory Pension Fund (the "PCPF" or the "Scheme") as at 1 April 2020. 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 the liabilities accrued up to the valuation date (including an allowance for future expenses and the McCloud remedy) is assessed as £608.2million. The market value of the assets on the same date is £634.3 million. The surplus at 1 April 2020 is accordingly £26.1 million, as set out in figure 1.1 below. These figures do not include any allowance for funds in respect of members' Additional Voluntary Contributions (AVCs).

Figure 1.1 – Past service funding position



1.3 The reduction in the surplus in the Scheme compared to that at 1 April 2017 has largely arisen due to the combined impact of the following issues:

- Part of the surplus at the 2017 valuation was used to reduce the Exchequer contribution rate rather than being retained in the scheme so we would expect a fall in surplus if all else is equal.
- The Scheme's assets have decreased in value compared to 1 April 2017 which has reduced the level of the surplus within the Scheme. Market values were depressed at the valuation date due to uncertainty arising from the COVID19 pandemic with the overall scheme assets being around 10% lower than expected.
- In addition, allowance has been included in respect of the additional benefits that some members may be entitled to as a result of the McCloud judgement (see paragraphs 3.3 to 3.7) which has increased the values of the liabilities.

1.4 The effect of these items has been offset to some extent by the members of the PCPF receiving lower than expected salary increases over the inter-valuation period, and also by changes to the actuarial assumptions, in particular an increase in the discount rate relative to CPI inflation and an update in the future life expectancy of the membership. The main driver behind the reduction in life expectancy is a reduction in assumed future improvements under the ONS-2018 based principal population projections compared with the ONS-2016 projections used in the 2017 actuarial valuation. These changes have reduced the value of the liabilities.

1.5 After taking account of other experience, the overall net effect is that the Scheme's liabilities have increased while the Scheme's assets have decreased. This has resulted in a reduction in the funding ratio of assets to liabilities compared with the 2017 actuarial valuation.

Future service assessment

1.6 Based on the methodology and assumptions adopted for this assessment, the cost of benefits accruing in the Scheme for each year of membership is assessed as 23.8% p.a. of pensionable payroll. The PCPF's share of the cost is 13.1% p.a. of pay, as shown in table 1.2 below.

Table 1.2 – Contribution Rates

Contribution rate	1 April 2017 (% p.a.)	1 April 2020 (% p.a.)
Standard Contribution Rate	27.4	23.8
Average member contribution rate	(10.6)	(10.7)
PCPF's share of the Standard Contribution Rate	16.8	13.1

1.7 The PCPF's share of the standard contribution rate was assessed as 16.8% of pay at the 2017 valuation. Following discussions with the Trustees, IPSA, Cabinet Office and HM Treasury, our recommendation was for just over half of the disclosed surplus to be retained in the scheme and for the Exchequer contribution rate to be set at 12.9% of pay.

1.8 The Exchequer's share of the standard contribution rate as at 1 April 2020 is 13.1% which is lower than the corresponding rate as at 1 April 2017. This difference is mainly due a reduction in the expected cost of accrual due to the change in the actuarial assumptions as at 1 April 2020.

1.9 In addition, there have been some other effects on the Standard Contribution Rate such as an increase in the proportion of active members in the Scheme who are accruing CARE benefits rather than final salary benefits. This has served to reduce the cost of accrual as the benefits accrued by those members currently building up final salary benefits are deemed to be more expensive than the corresponding CARE benefits.

1.10 Since March 2020 the UK has been dealing with the COVID-19 pandemic. The pandemic, in general, has had a significant impact on investment markets. In particular, investment markets experienced large falls in March 2020, although we have seen some degree of recovery since the valuation date.

1.11 Given the ongoing uncertainties (eg COVID-19, McCloud) it may be inappropriate to reduce the employer contribution rate significantly from the rate currently being paid.

1.12 Taking account of the views of the Trustees, IPSA, Cabinet Office and HM Treasury and the PCPF, my recommendation is for the PCPF contribution rate from 1 April 2021 to continue at 12.9% p.a. of pensionable pay.

1.13 Prior to signing this report, we have undertaken a review of the scheme's funding position to confirm that the recommendation outlined in paragraph 1.12 above remains valid. Appendix L outlines the conclusions of this review and confirms that I remain content to recommend a contribution rate of 12.9% of pensionable pay. This rate will be reviewed as part of the next actuarial valuation due as at 1 April 2023.

1.14 Throughout this report the totals given for summed data may not be exactly the same as the sum of the components shown due to rounding effects.

2 Introduction

Governing legislation

2.1 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.

2.2 The new Career Average Revalued Earnings (CARE) benefit structure was introduced, under the CARE Pension Rules in May 2015. The Scheme is not subject to the requirements of the Pensions Act 2004.

Benefit provisions

2.3 The benefit provisions for MPs and office holders within IPSA's Remit are contained within 'PCPF MPs' Pension Scheme' which was laid before Parliament on 18 July 2019, 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.

2.4 The scheme rules prescribe 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 benefit provisions of the Scheme at the valuation date are given in Appendices A, B and C. If there are any inconsistencies between these appendices and the Rules, it is the Rules that will prevail.

Requirement for a valuation

2.5 Rule 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.

Previous actuarial valuation

2.6 The previous actuarial valuation was carried out by me as at 1 April 2017.

2.7 At the previous valuation the liabilities were assessed as being £598.1m and the market value of the assets was £665.3m; this equated to a funding level of 111.2%. The recommendation for the rate of PCPF contributions was that the Exchequer should pay a rate of 12.9% which was reduced to take some but not full account of the surplus in the scheme at that date.

Consultation with all parties

2.8 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. The statement in Appendix D 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 D:

- 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.

Cost cap valuations

2.9 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.

Third party reliance and liability

2.10 The scope and purpose of this report is to set out the results of the actuarial valuation of the PCPF as at 1 April 2020.

2.11 This report has been commissioned by and prepared for the use of the Trustees of the PCPF ('the Trustees'), the Minister for the Civil Service, IPSA and HM Treasury and must not be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior permission.

2.12 The intended users of this report are the Trustees, the Minister for the Civil Service, IPSA and HM Treasury. Other than these parties, no person or third party is entitled to place any reliance on the contents of this report, except to the 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 in part, on the basis of this report.

2.13 Prior written permission will be conditional on assurances that, when transmitted, the advice will not be quoted selectively or partially, that the source of the advice will be identified, that the capacity in which the GAD actuary was acting will be made clear and that other parties whose interests may differ from those of the client be encouraged to seek their own actuarial advice on the matter.

2.14 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.

3 Developments since the 2017 valuation

GMP Equalisation

3.1 In October 2018 there was an important High Court case involving the Lloyds Bank pension schemes. In that case the High Court ruled that pension schemes must address the impact and adjust scheme benefits to remove gender inequalities caused by Guaranteed Minimum Pensions (GMPs) earned from 17 May 1990, by increasing benefits where appropriate.

3.2 In considering its judgment, HMT's view is that the Court has not called into question the equalisation method used in public service pension schemes. As such we have not made an allowance for the cost of GMP equalisation in our calculation of the scheme liability as at 1 April 2020.

McCloud

3.3 When the new Career Average Revalued Earnings Scheme (CARE) was introduced in May 2015, MP's and office holders within IPSA's remit who were aged 51½ or over on 1 April 2013 were subject to 'transitional protection'. This meant that those over 55 on 1 April 2013 stayed in the Final Salary section of the Scheme for future accrual ("full protection") while those between 51½ and 55 were given the option to continue accruing benefits in the final salary scheme for a fixed period in line with the scheme rules ("partial protection"). Younger members were moved out of Final Salary and into the new CARE section on 8 May 2015. There was no transitional protection in the Ministerial scheme and all members of the Ministerial Scheme were moved out of Final Salary and into CARE on 8 May 2015. Transitional protection was put in place throughout the public sector when schemes were reformed in 2015.

3.4 Members of the Firefighters and Judicial pension schemes brought age discrimination cases against the Government for allowing such provisions to apply to certain members. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' schemes, as part of the reforms, gave rise to unlawful discrimination. This is known as the McCloud Judgement.

3.5 The legal arrangements for the PCPF differ in a number of respects from those for the main public sector schemes and transitional protection only applied to certain MP's and office holders within IPSA's remit. It is therefore for IPSA to determine whether changes are required to the section of the PCPF ('the MPs' section') for which they set the rules. IPSA have stated in their consultation document, 'MPs' pensions and the McCloud judgement' that they consider a policy response to the McCloud judgement is warranted. It is therefore expected that a remedy will be put in place in response to the McCloud judgement. The remedy will be applied for a fixed period from 8 May 2015 ("the Remedy Period"), at the end of which all members will be moved into the CARE scheme.

3.7 Members who were not active on 1 April 2013 (or did not continue in active service until 8 May 2015) or who were fully protected are not subject to the McCloud remedy and therefore no amendments are required for these members. Similarly, members are not subject to the McCloud remedy in respect of any benefits in the Ministerial Pension Scheme.

3.8 The decision as to what the remedy will be and the end date of the remedy period rests with IPSA as they are responsible for the scheme rules of the MP's scheme.

COVID-19

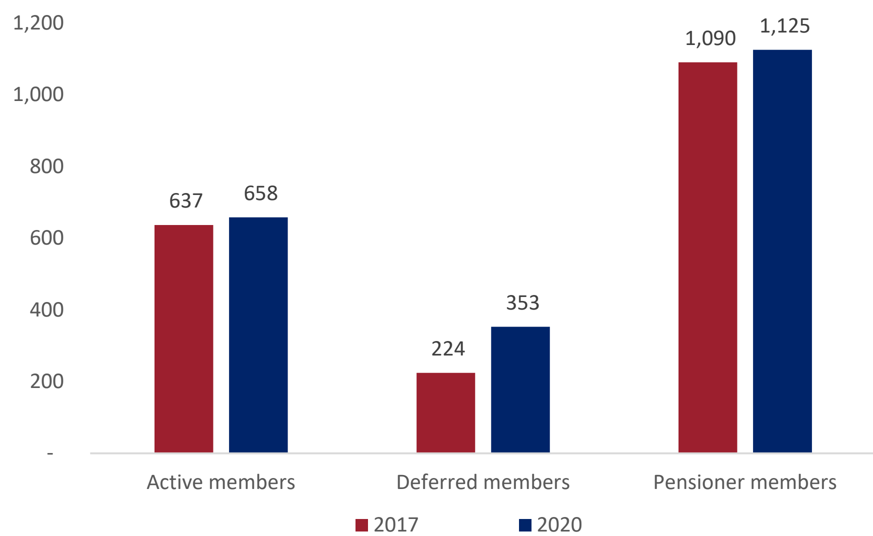
3.9 Since March 2020 the UK has been dealing with the COVID-19 pandemic. The pandemic has had a significant impact on investment markets. The 2020 valuation assumptions were set under conditions which were different from those at the time of signing of this report. Prior to signing this report, we have therefore undertaken a review of the scheme's current funding position to confirm that the proposals outlined remain valid. Details of this review are included in Appendix L.

4 Membership data and accounts

4.1 The data for the actuarial valuation was provided by Buck who are the Scheme's administrators. 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 of this assessment.

4.2 Figure 4.1 below summarises the membership numbers as at 1 April 2017 and 1 April 2020. Appendix G provides further details of the membership of the Scheme at the valuation date, and the changes in membership since 2017.

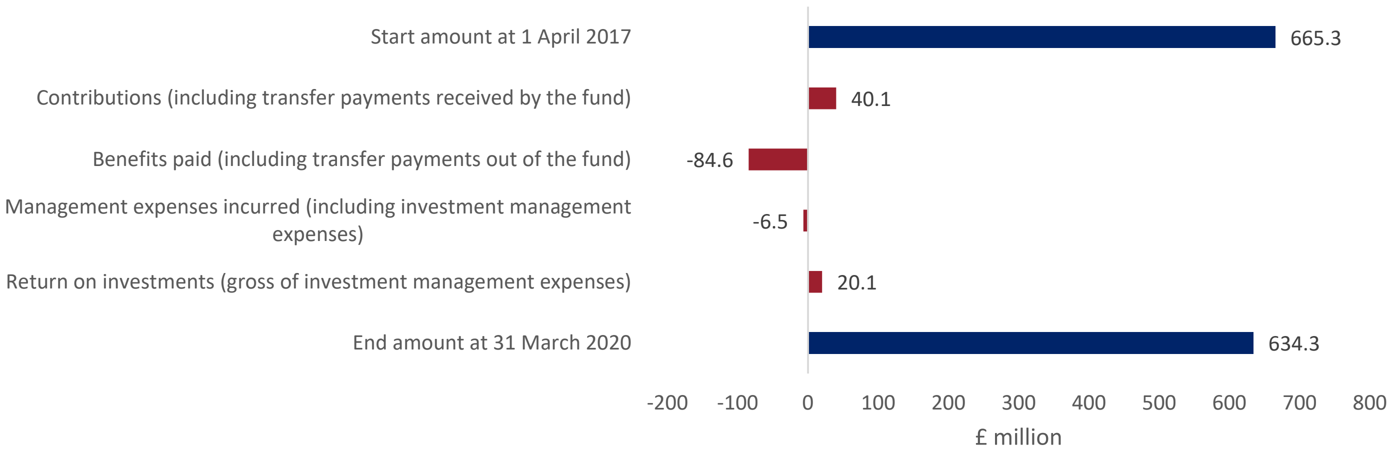
Figure 4.1 – Membership numbers



Accounts

4.3 Taken from the published accounts, the income and expenditure of the Scheme in the three-year period from 1 April 2017 to 31 March 2020 is summarised in Appendix H. The market value of the Scheme's assets decreased over the period by £31.0 million, from £665.3 million to £634.3 million. Figure 4.2 below shows a breakdown of this change:

Figure 4.2: Increase in assets 2017-2020



Investments

4.4 Appendix I contains a summary of the underlying investment classes held by the Scheme at 31 March 2020. This shows a majority of the investments (about 82% by market value as at 31 March 2020 compared with the strategic allocation of 85%) in company shares or other return seeking assets (such as equity, property and private market return seeking holdings), including investments in the Diversified Growth Fund (DGF).

4.5 The investment return achieved on the Scheme's assets over the three years since the last valuation was an average of 1.0% a year. The annual returns in each year since the last valuation are shown in table 4.3 below.

Table 4.3 – Investment returns achieved 2017-2020

Period	Investment return
1 April 2017 to 31 March 2018	+3.2%
1 April 2018 to 31 March 2019	+6.4%
1 April 2019 to 31 March 2020	-6.3%

4.6 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 (including net current assets) as at 31 March 2020, which is £634.3m (for the avoidance of doubt this does not include AVC funds in the Scheme).

5 Actuarial assumptions

5.1 The principal financial and demographic assumptions used to place a present value on the Scheme's liabilities and to assess the level of Exchequer contributions are set out in Appendix J and discussed in the following paragraphs. The approach adopted to deriving the financial and demographic assumptions has been to determine assumptions which are broadly best estimate. The Scheme is too small for its own experience to be statistically significant enough to derive the demographic assumptions, and so I have also had regard to experience and trends in other larger public service pension schemes.

Demographic assumptions

5.2 Assumptions are needed on such factors as rates of mortality, retirement and withdrawal from the PCPF. The mortality assumptions adopted are described below. The other assumptions adopted are the same as for the previous valuation of the Scheme, and are set out in Appendix J.

Pensioner mortality

5.3 The Scheme is small and so has no credible Scheme experience to use to set the mortality assumptions. I have considered the mortality experience in larger public service pension schemes, with a high proportion of professional staff. The mortality experience in the NHS Pension Scheme in England & Wales (NHSPS) is monitored closely, and is an appropriate comparator, containing a large proportion of professionals in public service.

5.4 For the 2017 valuation, the baseline mortality assumptions adopted were those adopted for the 2016 valuation of the NHSPS for which an adjustment was made to the S2 series of standard tables. 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') 2016-based UK population projections.

5.5 There has been no further valuation of the NHSPS since that in 2016 but a new set of standard mortality tables known as the S3 series has been introduced. Therefore, I have retained the base mortality assumptions broadly in line with that adopted for the 2017 valuation but re-expressed them in terms of the S3 series of standard tables. Changing from the standard S2 mortality table to the more recent S3 tables does not have a material impact on the scheme liabilities. I have assumed future mortality improvement in accordance with the assumptions made for the latest, ONS 2018-based population projections of the UK. Details of the mortality assumptions are set out in Appendix J.

5.6 The current population mortality projections make no specific allowance for the impact of Covid-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it remains too early in the pandemic to determine whether Covid-19 changes the long-term view of life expectancy in the UK. It is therefore reasonable to not make an explicit adjustment to the 2020 mortality assumptions. A death rate from Covid-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain in the 2023 actuarial valuation.

5.7 Tables 5.1 and 5.2 below compare the life expectancy of a 65 year old pensioner using assumptions adopted for the previous Scheme valuation, and those adopted for the 2020 valuation. This shows a decrease in life expectancy as a result of the latest ONS population projections. A slowdown in the rate of improvement in life expectancy has been observed across many pension schemes and the UK population as a whole, and shows that the historic trend of increasing life expectancy has, for the time being at least, been interrupted.

Table 5.1 – Expectations of life in years at age 65 – current pensioners

	Valuation date	
	2017	**2020**
Male members	24.3	23.7
Female members	25.7	25.1
Widows	24.5	24.0

Table 5.2 – Expectations of life in years at age 65 – actives and deferred pensioners now age 50

	Valuation date	
	2017	**2020**
Male members	25.8	24.9
Female members	27.2	26.3
Widows	25.9	25.1

Parliamentary terms

5.8 At the previous valuation, UK Parliamentary Elections were assumed to take place every five years, with the next election taking place in May 2022, given the snap general election in 2017. I have retained this assumption for the 2020 valuation but taken account of the snap general election in 2019 so that the next election is assumed to take place in December 2024.

Career patterns

5.9 I have adopted the same assumptions as for the previous valuation. Appendix J contains full details of the assumptions adopted.

Commutation

5.10 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).

5.12 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 17.5% of their pension under the CARE benefit structure for a lump sum, as set out in The Public Service Pension (Valuation and Employer Cost Cap) (Amendment) Directions 2018 issued by HM Treasury[1].

5.13 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 only where relevant.

Financial assumptions

5.14 The main financial assumptions adopted for the current and previous valuations are set out in table 5.3 below.

Table 5.3 – Financial assumptions

Assumption	1 April 2017	1 April 2020
Gross rate of return (or discount rate)	4.6% p.a.	4.80% p.a.
Earnings increases	4.1% p.a.	3.75% p.a.
Price/pension increases (CPI)	2.1% p.a.	2.00% p.a.
Real rate of return, net of earnings increases	0.5% p.a.	1.00% p.a.
Real rate of return, net of price/pension increases	2.5% p.a.	2.75% p.a.

Discount rate

5.15 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 Scheme's investments. On this basis, the 2017 valuation used a discount rate of 2.5% a year (in excess of CPI).

5.16 The 2020 discount rate has been assessed by considering the expected return on the Scheme's strategic asset allocation. This is consistent with the approach adopted in 2017. The proportion of the Scheme's assets in different asset classes may vary from the strategic asset allocation from time to time. Consideration of the strategic asset allocation therefore ensures that the discount rate represents the long term expected return on the scheme assets. Table 5.4 below shows the strategic asset allocation across different asset classes as at the valuation date together with the return in excess of CPI that would be expected to be achieved on those asset classes as at the valuation date. These represent GAD's view of the best estimate returns on the different asset classes at the valuation date.

[1] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

Table 5.4 – Expected return on assets at 1 April 2020

Asset class	Asset allocation as at 1 April 2020	GAD's expected return as at 1 April 2020 (%p.a.)
Equities	60%	5.5%
Loan/Illiquid credit	15%	4.0%
Bonds (index-linked government bonds)	7.5%	2.0%
Property	10%	4.5%
Gilts	3.75%	0.7%
Cash	3.75%	0.45%
Overall (gross)		4.5%
Overall (net of CPI at 2% p.a.)		**2.5%**

5.17 The investment advisers' best estimate expected return on assets as at 1 April 2020 was 3.7% in excess of CPI.

5.18 Having regards to the Scheme's investment strategy and the best estimate returns expected by GAD and the Scheme's investment advisers, I have therefore adopted a discount rate for the 2020 actuarial valuation of 2.75% in excess of CPI.

Price inflation

5.19 The Scheme provides benefits linked to Consumer Prices Index (CPI) inflation and, because there is no significant market in CPI linked securities from which to derive a market-based assumption for CPI, it has therefore historically been necessary to estimate future CPI inflation by deriving a market-based assumption for Retail Price Index (RPI) inflation and to consider the expected gap between RPI and CPI.

5.20 In early September 2019, an exchange of letters between the Chancellor of the Exchequer and the Chair of the UK Statistics Authority (UKSA) suggested that there was a high likelihood that RPI formulation will be "fixed" to bring it into line with CPIH.

5.21 Market implied RPI fell on this announcement but not as much as might have been expected, either because markets were already pricing in this announcement to some extent, or because gilt holders expect that they might receive some form of compensation.

5.22 The UK government launched a consultation at Budget 2020 to understand the impact of potential changes and consult on what changes should be made to RPI and when these should come into force. As at the valuation date there was therefore significant uncertainty regarding how RPI would evolve.

5.23 Given the difficulties in determining inflation expectations from market prices as at the valuation date, I proposed to set an assumption for CPI at 2% p.a. This was in line with the Bank of England's CPI target, recent history and implied market expectations prior to the announcement.

5.24 Following the joint consultation between the Chancellor and the Chair of the UK Statistics Authority on aligning RPI with CPIH, a response was issued on 25 November 2020. The response confirmed the following:

- The Government does not consent to the alignment of RPI with CPIH before 2030
- The UKSA confirmed its policy to implement the change at the earliest possible time. In the absence of any unforeseen circumstances, the UKSA will make the change in February 2030
- The Government confirmed that compensation will not be paid to index-linked gilt holders

5.25 Given the uncertainties, particularly at the date of the valuation, I have concluded that it is appropriate to retain the CPI assumptions as previously proposed and outlined above. At future valuations when experience of the new framework for inflation indices has developed more, it may prove feasible to incorporate market price information once more when considering the CPI assumption.

Pension increases

5.26 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 CPI. Hence, this assumption is taken to be 2.0% per annum.

Nominal investment return

5.27 The combination of a return in excess of CPI of 2.75% p.a. and CPI inflation of 2.0% p.a. produces a nominal rate of investment return of 4.8% pa.

5.28 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).

Pay increases

5.29 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 1.75% p.a. in excess of CPI.

Expenses

5.30 Administration expenses incurred by the Scheme during the three-year inter-valuation period were around £6,500,000, excluding investment management costs. For the previous valuation, the present value of liabilities included a reserve of £9.0m for expenses.

5.31 For the 2020 valuation I have retained the expense allowance of £9.0m. The costs of investment management are implicitly taken into account in determining the rate of return on investments assumed for this valuation.

6 Valuation results – funding level

6.1 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 6.2 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 7.

Past service assessment

6.2 The value of the liabilities for past service and the assets of the Scheme have been determined on the methodology set out in Appendix F of this report, using the actuarial assumptions described in section 5 and Appendix J. The results of the valuation in relation to past service liabilities are set out in table 6.1 below.

Table 6.1 – Valuation statement as at 1 April 2020 – past service

		Value at 1 April 2020 (£ million)
	Current members – service up to 1 April 2020:	
(1)	(a) MPs (protected and unprotected)	142.67
(2)	(b) Office holders	4.62
	Members with deferred benefits:	
(3)	(a) Former members	112.71
(4)	(b) Former office holders who are still MPs	8.94
	Pensions in payment:	
(5)	(a) Pensioners	258.35
(6)	(b) Surviving dependants of former members	53.84
	McCloud allowance	
(7)	(a) Value of liability expected to be built up in the period to 1 April 2023 in respect of the McCloud remedy	18.00
(8)	**Total liabilities for benefits (McCloud allowance) = (1) to (7)**	**599.18**
(9)	Reserve for administration expenses	9.00
(10)	**Actuarial liability = (8) + (9)**	**608.18**
(11)	**Value of assets**	**634.30**
(12)	**Surplus of assets over liabilities = (11) – (10)**	**26.12**
(13)	**Ratio of assets to liabilities = (11) / (10)**	**104.3%**

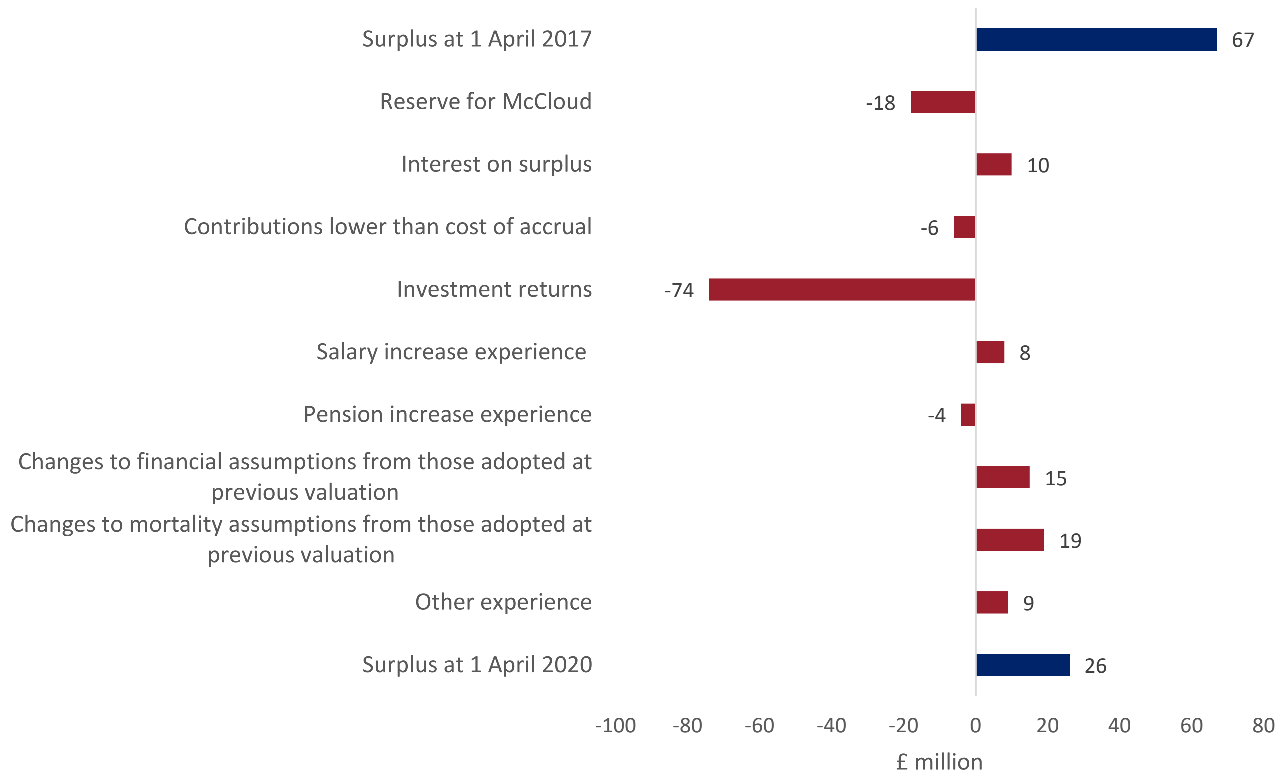
* Sum does not work due to rounding

6.3 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 £147.29 million (rows (1) and (2) above), is much smaller than the liability in respect of former members and dependants in receipt of pension at £312.19million (total of rows (5) and (6) above).

Analysis of surplus

6.4 The result of the valuation shows a move from a surplus of £67.2 million to a surplus of £26.1million over the three-year period to the valuation. The key factors influencing the change are shown in figure 6.2 below.

Figure 6.2 – Summary of change in surplus 2017-2020



7 Valuation results – contribution requirement

Future service assessment

7.1 The cost of benefits accruing for future service is assessed by means of the Standard Contribution Rate, as described at paragraph F.6 in Appendix F. The Standard Contribution Rate calculated on the actuarial assumptions set out in section 5 of this report is 23.8% for AMs and office holders combined.

7.2 Contributions at the valuation date were payable by members at the rate set out in Appendices A, B and C and as shown in table 7.1 below. Member contributions are expected to average 10.7% of pay based on the expected mix of CARE and Final Salary members.

Table 7.1 – Member contributions payable

	CARE* 1/51st	FS 1/40th	FS 1/50th	FS 1/60th
Contribution rate payable	11.09%	13.75%	9.75%	7.75%

*11.09% applies to MP's and Office Holders within IPSA's remit. Member contributions to the Ministerial Scheme are 11.1%.

7.3 Protected members remaining in the Final salary section whose pensions have reached the limit of two-thirds of final salary pay no contributions. Members' contributions are expected to average 10.7% of the Scheme's total pensionable payroll from April 2021 to March 2024.

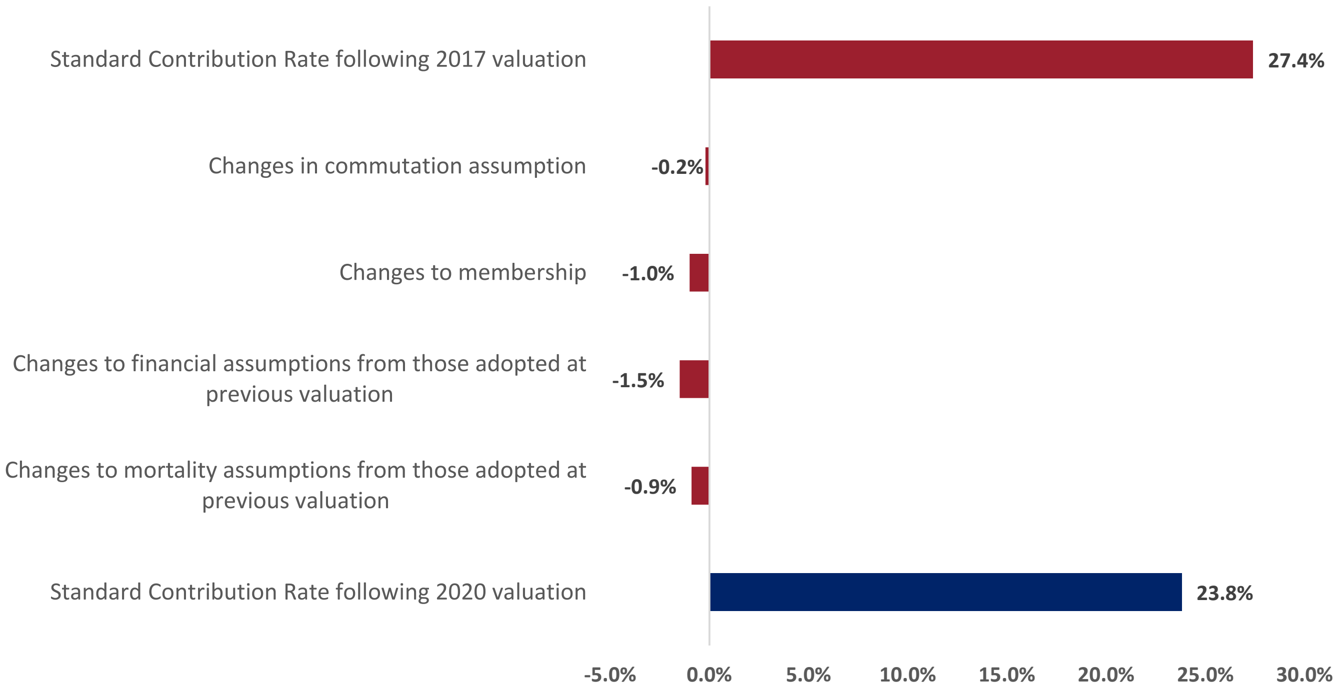
7.4 The Exchequer's share of the Standard Contribution Rate, which is the balance of costs that would fall to be met by the Exchequer in the absence of any surplus or deficiency, is assessed as 13.1% of pensionable salaries (being 23.8% less 10.7%).

7.5 The Standard Contribution Rate is sensitive to changes made to the assumptions, and to changes in the active membership. The next general election is expected to take place in December 2024 so we would not expect significant changes to the scheme membership prior to the next actuarial valuation as at 1 April 2023. Therefore the average age of the membership is expected to rise over time. In this situation, the Standard Contribution Rate could be expected to increase slightly (all else being equal). I have therefore used the age of the membership at midpoint of the election cycle in the calculation of the SCR, with the next general election assumed to take place in December 2024.

Analysis of change in Standard Contribution Rate

7.6 Figure 7.2 below summarises the main factors that account for the change to the Standard Contribution Rate

Figure 7.2 – Changes to Standard Contribution Rate



<u>Determination of the rate of Exchequer contributions</u>

7.7 Under paragraphs 10 and 11 of Schedule 10 of the Constitutional Reform and Governance Act 2010 the Government Actuary is required to determine the rate of Exchequer contributions to the fund.

7.8 I have consulted the Trustees, IPSA, The Minister for the Civil Service and HM Treasury on proposals for the PCPF contribution rate. Taking account of the views of the Trustees and the other parties, our determination is for the Exchequer contribution rate from 1 April 2021 to remain at 12.9% of pensionable payroll. This is only slightly below the Exchequer share of the standard contribution rate and can be supported using only a small proportion of the surplus disclosed at the valuation date. At the time of signing we are still recovering from the impacts of COVID and Brexit and there is still uncertainty regarding the impacts of McCloud so it has been judged best to retain the current contribution rate of 12.9% and reconsider the position at the next scheme valuation in 2023. Table 7.3 below compares the contribution rates in the Scheme since the 2017 valuation.

Table 7.3 – contribution rates

Contribution rate	1 April 2017 (% p.a.)	1 April 2020 (% p.a.)
Standard Contribution Rate	27.4	23.8
Average member contribution rate	(10.6)	(10.7)
PCPF’s share of the Standard Contribution Rate	16.8	13.1
Deficit (surplus) contributions	(3.9)	(0.2)
PCPF contribution rate	**12.9**	**12.9**

8 Sensitivities

Future service assessment

8.1 I have considered how sensitive the results are to changes in the assumptions, and the Scheme experience differing from the assumptions. Table 8.1 below illustrates the sensitivity of the liabilities and contribution rate as at 1 April 2020 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.)

Future investment return (or discount rate)

8.2 For the purposes of the valuation I have assumed that the Scheme's investments will produce future returns of 2.75% a year above the level of price inflation over the long term. The results that would have been obtained using investment yield assumptions of 0.25% per year more than or less than this are shown in table 8.1 below.

Salary growth

8.3 For the purposes of the valuation I have assumed that salary growth will be 1.75% a year above the level of CPI. The results that would have been obtained using a salary growth assumption of 0.5% per year more than or less than this are shown in table 8.1 below.

Longevity

8.4 The assumptions made for longevity are described in paragraphs 5.3 - 5.6 of the report and further details can be found in Appendix J. The sensitivity of the valuation result to a 2.5% increase in the scaling factors applied to the standard mortality tables[2]
1 is illustrated in table 8.1 below.

Table 8.1 – Sensitivities to main valuation assumptions

Assumption	Adjustment made	Impact on past service liabilities	Surplus at 1 April 2020
Central valuation assumptions adopted	n/a	n/a	£26.1m
Discount rate (net of CPI) -0.25% p.a.	-0.25% p.a.	+3.5%	£5.3m
Salaries: -0.5% p.a.	-0.5% p.a.	-0.5%	£29.2m
Commutation: -2.5% p.a.	2.5% p.a.	Immaterial	Immaterial
Mortality: +2.5% scaling factor	+2.5% scaling factor	-0.6%	£29.9m

[2] The scaling factors applied to the standard mortality tables in the calculation of the valuation results are set out in Table J1 in Appendix J.

Assumption	Adjustment made	PCPF share of Standard Contribution Rate
Central valuation assumptions adopted	n/a	13.1% p.a.
Discount rate (net of CPI)	-0.25% p.a.	14.5% p.a.
Salary	-0.5% p.a.	13.0% p.a.
Commutation	-2.5% p.a.	13.3% p.a.
Mortality	+2.5% scaling factor	13.0% p.a.

Sensitivity to market value changes

8.5 I have considered how the valuation results may look as at 1 April 2023, on three scenarios of investment performance in the inter-valuation period:

Base scenario: All assumptions are unchanged from those adopted for the 2020 valuation and experience over the inter-valuation period is assumed to be in line with those assumptions.

Scenario 1: In line with the base scenario, but the ***discount rate*** adopted for the 2023 valuation is ***0.5% lower*** than as at the 2020 valuation.

Scenario 2: In line with the base scenario but assuming an ***investment return*** of ***-20%*** on the Scheme's assets between 1 April 2020 to 31 March 2023.

Table 8.2 – Sensitivity to result of 2023 valuation

Scenario	Projected Liabilities	Projected Assets	Projected Surplus/ (deficit)	Exchequer share of Standard Contribution Rate*	Deficit Contribution Rate
Base Scenario	£679m	£700m	£21m	13.1% p.a.	(2.3%) p.a.
Scenario 1	£722m	£700m	(£22m)	15.9% p.a.	2.5% p.a.
Scenario 2	£679m	£482m	(£197m)	13.1% p.a.	21.8% p.a.

*These estimates assume a similar mix of CARE and Final Salary members as at 2023 and makes no allowance for the possibility that all members will be transferred to the CARE scheme with effect from 2023 under the proposed McCloud remedy

8.6 In calculating the figures above, I have made a number of assumptions as follows:

a) In line with the recommendations in this report the total contributions into the Scheme are assumed to be 23.5% of pay between 1 April 2020 and 31 March 2021 and 23.6% p.a. from 1 April 2021 to 31 March 2023.

b) Any deficit as at the 31 March 2023 valuation is assumed to be amortised over a period of 15 years on the discount rate prevalent in the relevant scenario.

c) We have not attempted to carry out a full valuation of the Scheme as at 31 March 2023, rather we have rolled forward the results as at 31 March 2020 in an approximate manner, assuming the following:
   - Payments out of the Scheme over the period are assumed to be in line with those paid over the year 1 April 2019 to 31 March 2020, with allowance for increases in line with the assumptions adopted for the 2020 valuation;
   - The pensionable payroll profile remains stable over the period with allowance for assumed increases to pensionable pay;
   - Active membership is also assumed to be stable over this period, which is a reasonable assumption given that the next general election is expected to be in December 2024.

d) The way in which we have carried out these calculations is approximate, and there may be small second order affects that would change the results but I do not believe this is material for the purpose of the analysis.

9 Conclusion

9.1 Schedule 6 of the Constitutional Reform and Governance Act 2010 requires that, at each actuarial valuation, the Government Actuary shall determine the rate of contribution that should be paid by the Exchequer. I have completed the actuarial valuation of the PCPF as at 1 April 2020, using the methodology and actuarial basis described in this report, and the determination I am required to give under the Act is set out in paragraph 9.2 below.

9.2 Our determination is that the PCPF's contributions payable from 1 April 2021 should be at the rate of 12.9% of pensionable pay adjusted to take account of any changes in members' contributions which IPSA or the Minister for the Civil Service announce as a result of the cost cap valuations of the MPs' Scheme and the Ministerial Scheme respectively.

Martin Clarke FIA

Government Actuary

29 July 2021

Appendix A: Summary of the main provisions of the Scheme as at 1 April 2020 for protected members

A.1 Serving Members of Parliament who were aged 55 or over on 1 April 2013 and who were in continuous reckonable service between 1 April 2013 and 7 May 2015 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 B.

A.2 Office holders within IPSA's remit are covered by the rules of the MP's scheme and qualify for protection as described in paragraph A.1. They participate in a supplementary section of the MP's 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.

A.3 Member contributions payable are as shown in table A1 below:

Table A1 – member contribution rates payable

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

A.4 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.

A.5 An ill-health retirement pension may, subject to medical evidence, be awarded at any age. Upper-tier ill-health pensions are calculated by reference to potential service to age 65.

A.6 Members may, on retirement, commute part of their pension for a lump sum that is actuarially equivalent to the part of the pension forgone.

A.7 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.

A.8 Pensions and deferred pensions are increased annually in line with CPI.

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

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

B.2 Contributions are required at a rate of 11.09% of salary from scheme members.

B.3 Members accrue pension on a Career Average Revalued Earnings (CARE) basis at the rate of 1/51st of pensionable salary.

B.4 Pensions are revalued in line with CPI whilst an active member.

B.5 Retirement pensions are payable from State Pension Age to those who are no longer MPs. 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, an enhanced pension is payable.

B.7 Members may, on retirement, commute part of their pension for a lump sum at a rate of 12:1.

B.8 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.

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

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

C.1 All Ministers accrue benefits as described below.

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

C.3 Members accrue pension on a Career Average Revalued Earnings (CARE) basis at the rate of 1.775% of pensionable salary.

C.4 Pensions are revalued in line with CPI whilst an active member.

C.5 Retirement pensions are payable from State Pension Age (SPA) to those who are no longer Ministers or members of the House of Commons. Abated pensions may be payable from earlier ages to members aged 55 or over.

C.6 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.7 Members may, on retirement commute part of their pension for a lump sum at a rate of 12:1.

C.8 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.9 Pensions and deferred pensions are increased annually in line with CPI.

Appendix D: Principles under which valuation has been undertaken

D.1 **Actuarial Valuation at 1 April 2020** 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 2020 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.

D.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.

D.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.

D.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 2023.

D.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.

D.6 **Cost cap valuations** In addition to the funding valuation required under the Constitutional Reform and Governance Act 2010, the rules of the MPs' Pension Scheme (including IPSA officeholders) and Ministerial Pension Scheme require the Government Actuary to undertake cost cap valuations of the respective schemes as at the same date as the funding valuation. The cost cap valuations could lead to a change to the member contribution rates in the MPs' and/or ministerial scheme. This statement only applies to the funding valuation and does not apply to the cost cap valuations.

D.7 **Nature of scheme** The benefits provided to MPs and Officeholders are described in detail in the Scheme rules, which also specify the rate (or rates) of contributions payable by members of the Scheme, subject to any changes that arise following the cost cap valuations of the MPs' and Ministerial schemes. 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 D.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.

D.8 **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 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.

D.9 **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.

D.10 **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.

D.11 **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. These included the introduction of 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.

D.12 When the revised benefit structures were introduced, members in the MPs section of the scheme who were closer to retirement were granted transitional protection so that they continued accruing benefits under the previous structure, provided that they were in post at 1 April 2013 and remained in after the 2015 election. Similar transitional protection was introduced in other public sector schemes which were reformed in 2015. Cases were brought under the Equalities Act by members of the Judicial Pension Scheme and the Firefighters' Pension Scheme and in December 2018 the courts found that the transitional arrangements in those schemes were age discriminatory. These are known as the McCloud and Sargeant judgements (although often collectively referred to as 'McCloud'). The government was denied the right to appeal by the courts. The Chief Secretary to the Treasury then announced that the government would take steps to remedy the discrimination across the main public service pension schemes made under section 1 of the Public Service Pensions Act 2013 (the 2013 Act). The MP's pension scheme is separate, is not made under section 1 of the 2013 Act and is not in scope of the government's proposed changes. However, IPSA is considering whether steps are needed to amend the transitional protection arrangements in the MPs' scheme in light of the Government's response to McCloud. IPSA have indicated that it is likely that some changes will be made to the MPs' scheme in the light of McCloud, although the exact format is not yet known.

D.13 **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 (and not excessive) to cover the value of the PCPF liabilities in respect of service completed by members prior to the date of the actuarial valuation plus a reserve for additional liabilities to be incurred in respect of any steps taken to amend the transitional protection arrangements in the MPs' scheme. 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.

D.14 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.

D.15 **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 previous valuations, post-valuation events will generally be ignored unless there are major changes in expectations such as legislative developments or changes in the Scheme's coverage.

D.16 However, the valuation date of 1 April 2020 is early in the COVID19 pandemic when asset markets and the funding position of the scheme were depressed. Markets have since recovered. The funding position and valuation recommendations has therefore be kept under review until the report on the valuation is signed in order to ensure that the recommendations remain appropriate (see Appendix L).

D.17 If any changes to member contributions and/or benefits arise from the cost cap valuations and these are implemented to take effect on or before 1 April 2021 then these will be allowed for in the funding valuation and in setting the Exchequer contribution rate. If any such changes are implemented after 1 April 2021 then the Exchequer contribution rate will subsequently be adjusted to allow for any such changes.

D.18 **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.

D.19 The investment strategy is set out in some detail in the Statement of Investment Principles (SIP) dated June 2020. 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 June 2020)

Asset Class	Proportion of Fund
Growth assets	
UK and Overseas Equities	55%
Renewable Infrastructure	5%
Income/Diversifiers	
Property	10%
Illiquid Credit/Senior Loans	15%
Protection	
Global Bonds	7.5%
Gilts/Cash	7.5%
Total Assets	**100%**

D.20 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 previous 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.)

D.21 **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 deficit of assets relative to past service liabilities. Where valuations result in either a surplus or deficit, contributions will be adjusted over a period of time so that the combination of contribution income and the income from the assets held in the fund is just sufficient (and not excessive) to maintain a fund of assets which is sufficient to meet the scheme's liabilities. In general, surpluses and deficits will be treated symmetrically in this regard.

D.22 As security of members' benefits is not an issue, and in order to keep contribution rates reasonably stable, a relatively long period will generally be selected for the period over which contributions are adjusted. Typically, this might be 15 years, consistent with past valuations of the scheme.

D.23 However, given current exceptional levels of economic uncertainty, particularly arising from the COVID-19 pandemic and its effect on investment market volatility and mortality, it may not be appropriate to follow the standard procedure of adjusting for a surplus as at 1 April 2020. This decision is subject to confirmation at the date of signing of the valuation report that the funding position has not changed significantly; if the funding position has changed, this decision may be revisited.

D.24 In addition, given the current uncertainty, there will be a stronger preference towards maintaining stability in contribution rates.

D.25 **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.

D.26 **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 E: Determination of Exchequer contribution rate

E.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.

E.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.

E.3 I have consulted all four parties on the approach to be taken 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 E1 below.

- Table E1 – summary of consultation responses

Stakeholder	Views
PCPF Trustees	Happy with a continuation of current exchequer contribution therefore retaining almost all surplus in the fund
HM Treasury	In general HM Treasury would wish to 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. This would suggest using the surplus to reduce the otherwise increased costs. However they recognise that a departure from this spirit might be indicated in light of current extraordinary economic circumstances. Therefore they would be prepared for additional surplus to be retained in the scheme at this valuation unless the funding position has materially improved since the valuation date.
IPSA	In view of significant uncertainties remaining from the COVID pandemic and McCloud they would be very concerned about any reduction in Exchequer contributions below the current level. That is they support retaining almost all surplus in the fund.
Cabinet Office (on behalf of the Minister for the Civil Service)	Happy with a continuation of the current Exchequer contribution therefore retaining almost all surplus in the fund.

E.4 The trustees, IPSA and Cabinet Office are all happy to continue with the current Exchequer contribution rate, therefore retaining the vast majority of the surplus in the fund.

E.5 HM Treasury have indicated that they would not usually support this position but are prepared to support a more cautious position on retention of surplus at this valuation given the extraordinary economic circumstances resulting from the COVID pandemic. They have however, indicated that they might expect the Exchequer contribution rate to be reduced if the funding position has improved since the valuation date.

E.6 All four parties were provided with an estimate of the funding position of the Scheme as at 31 December 2020. This update disclosed an estimated funding position as at 31 December 2020 of 113% (see Appendix L). However, it was noted that this update represented a snap-shot view mid valuation at a time when we are still recovering from the impacts of COVID and Brexit and there is still uncertainty regarding the impacts of McCloud. The Government Actuary's recommendation, having regards to this update, was to retain the current contribution rate of 12.9% and consider the position at the next scheme valuation in 2023 to determine whether it is appropriate to reduce the exchequer rate at that time.

E.7 There have been no formal objections to the recommendation outlined in paragraph E.6 above.

Appendix F: Funding objective and valuation method

Funding objective

F.1 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 has been agreed by the Trustees of the Scheme, having consulted with IPSA, the Minister for the Civil Service and HM Treasury, taking into account advice from the Government Actuary. A statement setting out the principles on which the valuation is undertaken is set out in Appendix D.

F.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.

Valuation method

F.3 For this valuation, I have retained the same valuation method as was adopted for the previous valuation as at 1 April 2017. 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, and allowing for CPI increases on CARE benefits. 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.

Actuarial liability

F.4 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. The Actuarial Liability includes the value of any pension rights transferred into the PCPF from other pension arrangements. The Actuarial Liability in respect of active members is assessed by summing the discounted present value of the benefits accrued to the valuation date. These are 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.

F.5 In addition to the Actuarial 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. At this valuation a McCloud reserve has been added to the actuarial liability. This is discussed further in F.10 to F.14 below. The value of the assets held in the fund can then be compared directly with this Actuarial Liability.

Standard Contribution Rate

F.6 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. 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.

F.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 gender does not change significantly, and provided the distribution of members across each benefit category 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 (all else being equal). 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 December 2019.

Recommended contribution rate

F.8 The recommended contribution rate is generally 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).

Office holders

F.9 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 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-yea 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 December 2019. When pensions accrued as on office holder 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.

McCloud Reserve

F.10 It was agreed with the trustees and other parties that a reserve for the cost of the McCloud remedy in the MPs' Scheme should be included within the actuarial liability as at 1 April 2020. The cost of the McCloud remedy depends on a number of factors including but not limited to:

- The date the remedy period is to end
- The remedy to be implemented
- The membership assumed to be covered by the remedy

- How the final salary benefits compare to the CARE benefits for each individual member
- The underlying actuarial assumptions

F.11 For the purpose of the valuation, we have assumed that IPSA end the remedy period on 1 April 2023 and implement the McCloud remedy by restoring all relevant active members to their previous final salary section. In practice, it is expected that members will be offered a choice between final salary and CARE benefits for the remedy period.

F.12 Our McCloud reserve is an estimate which has been produced in line with the actuarial assumptions set out in section 5. The calculation has been broken down in two parts for current active members.

- Actives Past Service: We have calculated the overall past service liabilities as at 1 April 2020 (the valuation date) assuming that relevant members accrue benefits in line with their current scheme provisions up to the valuation date. We have compared this with the value assuming that all relevant members accrued final salary benefits over the period from 6 May 2016 to the valuation date to get an estimate of the cost of the McCloud remedy up to the valuation date.

- Actives Future Service: We have calculated the cost between 1 April 2020 and 31 March 2021 that relevant members accrue benefits in line with their current scheme provisions up to the valuation date. We have compared this with the value assuming that all relevant members accrue final salary benefits. This difference in cost can be used to estimate the cost of the McCloud remedy to the end of the remedy period.

F.13 The McCloud reserve includes an approximate allowance for the potential cost for deferred pensioners and current pensioners potentially impacted by McCloud. This element is less significant than the cost for current actives.

F.14 The elements of the calculation are combined into a single McCloud reserve which is included in the liabilities at 31 March 2020.

F.15 The above approach produced an approximate, but reasonable, estimate of the likely McCloud cost. The actual remedy cost may be higher or lower than the estimate included within the scheme liabilities as at 1 April 2020, depending on the Remedy implemented by IPSA. Any difference between the final remedy and the methodology assumed above, will emerge as a source of surplus or deficit at the 2023 valuation.

Going concern

F.16 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 I understand that 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.

Appendix G: Membership at 1 April 2020

Table G1 – Membership as at 1 April 2020

Category	Number of members[1]	Average age[2]	Total pension (pa)	Average pension[3] (pa)	Total salary (pa)
Active MPs	644	50.4	£10.6m	£16,000	£52.8m
Active officeholders	175	52.6	£0.4m	£2,000	£5.5m
Deferred office holdings for active AMs	177	56.2	£0.6m	£3,000	
Deferreds	353	55.3	£7.4m	£21,000	
Pensioners	799	74.9	£19.6m	£25,000	
Dependents (including children)	326	78.7	£5.5m	£17,000	

1. Some members appear in more than one category.
2. Unweighted.
3. Including the pension increase as at April 2020, where applicable

Table G2 – Membership as at 1 April 2017

Category	Number of members[1]	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	-

1. Some members appear in more than one category.

G.1 We have included a summary of membership movements below. There were some queries in respect of the membership (hence the unexplained movements items) and we believe these have come about as part of the change in scheme administrator. We have discussed the changes in membership data with Buck and are satisfied that the data provided is suitable for the purpose of a valuation. In particular we are satisfied that the total number of members is of the correct order of magnitude.

Table G3 – Movement of active members 2017-20[1,2]

Number of active members participating in PCPF at 1 April 2017	**624**
Adjustments made to 2017 valuation to allow for 2017 election	(15)
Number of members valued as part of the 2017 PCPF valuation	**609**
New entrants	221
Leavers	(124)
Retirements	(50)
Refunds	(5)
Transfers out	(1)
Expected number of members for the PCPF valuation as at 1 April 2020	650
Actual number of members as at 1 April 2020	**644**
Unexplained movements[1]	(6)

1. This does not include active office holder records or deferred office holders who are still active MP records
2. Excludes the active members who are GMP only members.

Table G4 – Movement of deferred members 2017-20

Number of deferred members participating in PCPF at 1 April 2017	**224**
Adjustments made to 2017 valuation to allow for 2017 election	82
Number of members valued as part of the 2017 PCPF valuation	**306**
Leavers	110
Retirements	(40)
Refunds	(1)
Transfers out	(1)
Expected number of members for the PCPF valuation as at 1 April 2020	374
Actual number of members as at 1 April 2020	**353**
Unexplained movements[1]	(21)

Table G5 – Movement of pensioners and dependants 2017-20

Number of pensioner and dependant members participating in PCPF at 1 April 2017	**1,073**
Adjustments made to 2017 valuation to allow for 2017 election	11
Number of members valued as part of the 2017 PCPF valuation	**1,084**
Retirements	90
Deaths	(127)
New dependant	61
Expected number of members for the PCPF valuation as at 1 April 2020	1,108
Actual number of members as at 1 April 2020	**1,125**
Unexplained movements[1]	17

G.2 We do not have the splits of dependant deaths

Appendix H: Consolidated account for the period 1 April 2017 to 1 April 2020

Table H1 – Consolidated revenue account for the period 1 April 2017 to 1 April 2020

	£000s	£000s
Balance at 1 April 2017		**665,300**
Income over period from 1 April 2017 to 1 April 2020:		
(a) PCPF regular contributions	18,755	
(b) PCPF deficit contributions	1,919	
(c) Member regular contributions	17,781	
(d) transfers in	1,675	
Total Income (excluding interest)		**40,130**
Expenditure over period from 1 April 2017 to 1 April 2020:		
(e) Retirement benefits	84,646	
(f) Professional fees and administration costs	6,534	
Total expenditure		**-91,180**
Interest on cash deposits and change in market value of investments over period from 1 April 2017 to 1 April 2020:		**20,079**
Balance at 1 April 2020		**634,329**

Appendix I: Analysis of the investments of the Scheme

Table I1 – Investment of the scheme as at 1 March 2020

Figures may not total exactly due to rounding

Investment manager	Type of asset	Value at 1 April 2020 £000s	Distribution of fund assets at 1 April 2020 (%)
BlackRock Advisors (UK) Ltd	Global equities	258,559	40.8
MFS International (UK) Ltd	Global equities	108,867	17.2
M&G	European Loans	53,815	8.5
M&G	Illiquid credit	30,310	4.8
Multi-managers	Property	68,042	10.7
PIMCO Europe Ltd	UK bonds	51,959	8.2
BlackRock Advisers (UK) Ltd	UK Gilts	26,598	4.2
Transition cash*	Cash	20,413	3.2
Current assets and liabilities	Cash	15,766	2.5
Total assets of the Scheme		**634,329**	**100.0**

Appendix J: Assumptions

Demographic assumptions

Table J1 – mortality assumptions for 2020 valuation

Members	Mortality table
Males	85% of S3NMA
Females	85% of S3NFA (middle)
Widowers and other partners of female members	85% of S3NMA
Widows and other partners of male members	100% of S3NFA (middle)

Note: The SAPS S3 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.

The tables used are the published S3NA tables with future improvements broadly in line with population improvements to 2018 and in line with the 2018-based principal population projections thereafter. For females the middle table has been used, which is based on the data with the highest and lowest pension amounts removed.

Parliamentary terms

General Elections are assumed to take place every five years, with the next election taking place in December 2024.

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 J2 below.

Table J2 Turnover assumptions for protected members

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

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 J3 below.

Table J3 Turnover assumptions for unprotected members

Age at election date	Proportion of unprotected members who leave Parliament at 2021 election	Proportion of all members who leave Parliament at subsequent elections
More than 2 years below state pension age (SPA)	25%	25%
SPA-2 to 75	80%	80%
75	100%	100%

Table J4 - Assumed age at leaving the PCPF under assumptions above

Age at valuation date	Assumed age of leaving Parliament for unprotected member with SPA of 68	Assumed age of leaving Parliament for protected member
40	56	55
50	63	61
60	69	65
70	75	75

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.

Commutation

Members with accrued benefits in the CARE section are assumed to commute 17.5% of their pension for a cash lump sum at retirement. There is no allowance for commutation of Final Salary pensions as the Scheme's commutation factors are assumed to be cost-neutral on the valuation basis.

Marital statistics

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

Financial assumptions

The financial assumptions adopted for the current and previous valuations are outlined in Table J5.

Table J5 – financial assumptions adopted for 2017 and 2020 valuations

Assumption	1 April 2017	1 April 2020
Gross rate of return (or discount rate)	4.6% p.a.	4.80% p.a.
Earnings increases	4.1% p.a.	3.75% p.a.
Price/pension increases (CPI)	2.1% p.a.	2.0% p.a.
Real rate of return, net of earnings increases	0.5% p.a.	1.0% p.a.
Real rate of return, net of price/pension increases	2.5% p.a.	2.75% p.a.

Appendix K: Risks and uncertainties

K.1 Table K1 below provides a high-level summary of the primary risks which exist in the scheme:

Table K1: Risks and uncertainties

Risk	Details	Comments
Investment Risk	If the Scheme's invested assets return less than assumed in the valuation, then the Scheme may not have enough resources to meet its liabilities as they fall due.	As the Exchequer effectively guarantees the benefits of the scheme the Trustees can take a long term approach to investment and therefore the scheme is predominately invested in return seeking investments to increase the likelihood of achieving high investment returns. Trustees regularly review their investment strategy and the performance of the Scheme's assets.
Mortality Risk	Pensions are paid for life. If the members and their dependants live longer on average than expected the cost of benefits will be higher than expected.	In recent history there has been a trend that has shown life expectancy increases over time and the Trustees have made an allowance for future mortality improvements. This is included in the valuation assumptions to help mitigate this risk but it is impossible to predict future mortality with any certainty. In particular, it appears that these increases may have slowed in the short term. The Trustees consider the experience and trends in other larger public service pension schemes when setting their mortality assumption.
Pension increases	There is a risk that future pension increases are higher than assumed.	Pension increases are generally in line with CPI. CPI is currently set on a best estimate basis with no margin for prudence.
Data Risk	Valuation results are reliant on good quality data.	No significant concerns regarding data received for recent valuations. Scheme advisers need to be alert to any emerging data issues to ensure consideration can be given to the impact on advice.

Risk	Details	Comments
Climate change	Climate change and the world-wide response to, for example, global warming have the capacity to be major influences on the global economy and on our health and well-being, particularly over long-term time horizons.	Climate change represents risks to future investment returns and to future mortality expectations, both of which are relevant to pension funds.
Brexit	The long-term effects of Brexit will emerge over time following the UK's exit from the EU and the subsequent end of the transition period.	The Trustees keep their long-term investment strategy under review and seek views from their investment consultants in relation to any emerging risks.
Option Risk	Members have a number of options in the Scheme such as taking early retirement or transferring benefits or commutation of pension for cash on retirement.	Where scheme factors are not set within the scheme rules, relevant factors are set on best estimate assumptions to target the exercise of such options to be on a broadly cost neutral basis. Commutation factors applicable to the CARE sections are fixed within the scheme rules at the rate of 12:1 which is not cost neutral at most retirement ages.
Legislative risk	There is the risk that future changes to legislation could affect members' benefits or funding requirements.	RPI is to be aligned to CPIH as proposed by the UK Statistics Authority in 2030 and this may have implications for the investment strategy. No allowance included in the valuation for GMP equalisation as impact expected to be small. The implementation of the McCloud remedy is still under consultation so could affect the benefits in a way that has not been foreseen as at of the valuation. Therefore the McCloud reserve is subject to greater uncertainty than other liability figures.

K.2 The Trustees and other parties should also be aware that in any actuarial calculation assumptions are made about future experience, which may or may not be borne out in practice. This means that the results of such a review are inherently uncertain.

Appendix L: COVID-19

L.1 Since March 2020 the UK has been dealing with the COVID-19 pandemic. The pandemic has had a significant impact on investment markets. The 2020 valuation assumptions were set under market conditions which were different from those at the time of signing of this report. Prior to signing this report we have therefore undertaken a review of the scheme's current funding position to confirm that the recommendations remain valid.

L.2 As at the valuation date, the expected return on the Scheme's assets was around 2.75% a year in excess of CPI. This was based on the combined view of GAD and the Scheme's investment advisors.

L.3 We have compared the expected return on assets as at the valuation date with our current expectations as at 31 December 2020. Allowing for no change in asset allocation, GAD's expected return on assets as at 31 December 2020 is lower than that calculated as at 1 April 2020, by around 0.5%. In line with the approach adopted at the valuation date, in setting a discount rate as at 31 December 2020, we would add 0.25% to our expected return to reflect the Trustees'' active management investment strategy. This would result in a discount rate of around CPI +2.25% which is 0.5% lower than at the valuation date.

L.4 Based on a market value of assets provided by the scheme's investment advisers, the value placed on assets as at 31 December 2020 was £751m.

L.5 We have estimated the funding position as at 31 December 2020, by rolling forward the scheme liabilities from March to December 2020 and comparing this with the market value of assets. The actuarial liability as at 31 December 2020 has been estimated by rolling forward the actuarial liability as at 31 March 2020 as follows:

- apply interest to the starting liabilities
- add benefits accrued over the period to 31 December 2020
- allow for expected cash flows over the period to 31 December 2020
- allow for the impact of the lower discount rate as at 31 December 2020

L.6 Based on the above approach, we estimate that the funding position as at 31 December 2020 would be around 113% compared with 105% as at 31 March 2020.

L.7 We estimate that the scheme's current funding position has improved since the valuation date. I am therefore content that the Exchequer contribution recommendation of 12.9% based on the full calculations at the valuation date remains appropriate.

L.8 There remains a great deal of uncertainty on the impact of COVID19 both in the short-term and longer term. Our review has considered impacts arising from changes in the market value of the scheme assets and expectations regarding future investment returns only. It makes no allowance for the potential impact on other assumptions such as future mortality rates or long term salary growth.

L.9 The current population mortality projections make no specific allowance for the impact of Covid-19 or any other future pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether Covid-19 changes the long-term view of life expectancy in the UK.

L.10 The long-term salary assumption is set by taking actuarial advice and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The long term rate of salary growth in excess of CPI has been reduced to 1.75% for this valuation, from 2% at the 2017 valuation, which takes some account of possible reductions to salary increases in the short term as a result of the Covid-19 pandemic.

L.11 The Trustees should note that there remains a great deal of uncertainty around the impacts of COVID-19 and the implications of this for the Parliamentary Contributory Pension Fund. If there are further falls in investment markets over the period to the next actuarial valuation as at 1 April 2023 or changes in member experience which may impact our views on the actuarial assumptions at that time, then the funding position could be worse than currently estimated. The retention of much of the 2020 surplus in the scheme will act as a buffer against possible adverse experience to some extent.