

**SCOTTISH PARLIAMENTARY CONTRIBUTORY PENSION FUND (SPCPF)
VALUATION REPORT AT 31 MARCH 2011**

Executive summary

1. The purpose of this paper is to present to the SPCB, in its capacity as the scheme sponsor, a draft actuarial valuation report of the SPCPF as at 31 March 2011 and to ask the SPCB to agree the recommendation to reduce the contribution rate paid into the SPCPF by the SPCB from 21% to 20.2% from 1 April 2012.
2. The scheme actuary, Ken Kneller from the Government Actuary's Department, will present the draft actuarial valuation report and take any questions.

Issues and Options

3. Schedule 1, Rule 32 of the Scottish Parliamentary Pensions Act 2009 (the 2009 Act) allows the SPCB to determine the contribution rate it should pay into the SPCPF. However, in setting the contribution rate the SPCB must have regard to the scheme actuary's recommendations and the views of the Fund Trustees.
4. Under Schedule 1, Part S, Rule 103 of the 2009 Act the scheme actuary is required to produce an actuarial valuation report of the SPCPF at intervals of no more than 3 years. The scheme actuary must also recommend a contribution rate to be paid by the SPCB. The previous actuarial report on the SPCPF was as at 31 March 2008 and was considered by the SPCB at its meeting on 1 April 2009. A draft actuarial report on the SPCPF at 31 March 2011, which was approved by the Fund Trustees at their meeting on 20 March 2012, is attached for consideration.
5. For this valuation, the same actuarial funding methodology (Projected Unit Method) was adopted as for the previous valuation. With this method (which is the most common method used in the UK) separate assessments are made for benefits accrued up to the valuation date and for the cost of benefits accruing in respect of future services. The basic methodology is to calculate, on stated assumptions, the emerging benefits and establish the equivalent contribution rate (expressed as a % of salary) needed to fund these.
6. The draft actuarial valuation report considers the scheme rules in its present form as detailed under Schedule 1 of the 2009 Act and does not take into account the previous rules that were set under the original legislation The Scotland Act 1998 (Transitory and Transitional Provisions) (Scottish Parliamentary Pension Scheme) Order 1999. The key conclusions of the report are:

- there is a surplus of £4.8m in contrast to a deficit of £230,000 as disclosed at the last valuation in 2008;
- the main positive factors for the surplus are good investment returns, change of indexation from RPI to CPI for future pension increases, lower salary growth than expected in the period 2008 to 2011 and high election turnover in 2011 particularly amongst members age 63 and under;
- the main negative factor is the use of a lower discount rate. The mortality assumption has also been strengthened to reflect improved expected longevity;
- the contribution rate paid by the SPCB to cover the cost of future benefits in the scheme (allowing for the run off of the surplus) should be reduced by 0.8% from 21% to 20.2% with effect from 1 April 2012.

7. On a related matter the Fund Trustees receive regular financial information from the fund manager, Baillie Gifford. For example, detailed quarterly reports summarising the performance of the Baillie Gifford pooled pension fund in which the assets of the SPCPF are invested and annual presentations by Baillie Gifford summarising their overall performance over the previous year and providing an outlook for future investment.

8. As the SPCB has responsibility for setting the scheme sponsor's contribution rate for the SPCPF the SPCB is asked to consider if it wishes to receive the Baillie Gifford quarterly reports and/or an annual presentation from Baillie Gifford about overall investment performance.

Resource Implications

9. The recommended decrease in the contribution rate would result in a saving of around £66,000 per annum from the SPCB's budget.

Governance issues

10. There are no governance issues.

Publication Scheme

11. This paper can be published in accordance with the SPCB's Publication Scheme.

Next steps

12. If the SPCB agrees with the recommendation to reduce the contribution rate the Human Resources Office will take forward all the necessary action to

change the contribution rate paid by the SPCB to 20.2% backdated 1 April 2012.

13. Under Schedule 1, Part S, Rule 103(4) of the 2009 Act the Fund Trustees must lay a copy of each actuarial report before the Scottish Parliament within 3 months of obtaining it. The Human Resources Office will therefore liaise with the Fund Trustees about laying the finalised actuarial report.

Decision

14. The SPCB is asked to:

- agree the draft actuarial valuation report of the SPCPF as at 31 March 2011, and;
- agree to reduce the SPCB's contribution rate from 21% to 20.2% with effect from 1 April 2012;
- say what financial information it would like to receive from the fund manager Baillie Gifford.

Human Resources Office
May 2012