The Scottish Parliament
Pàrlamaid na h-Alba

Scottish Parliamentary Pension Scheme (SPPS) – Sponsor contribution rate
20 April 2023
Reference: SPCB (2023) Paper 28

Executive summary

1. The SPCB is invited to consider the SPPS sponsor contribution rate for 2023-24, 2024-25 and 2025-26 as detailed in this paper.

Issues and options

2. In accordance with the Scottish Parliamentary Pensions Act 2009, the scheme actuary is required to perform an actuarial valuation of the scheme, at intervals of not more than three years.

3. The results of the 2022 valuation were concluded in December 2022, with funding level as at 31 March 2022 showing a surplus of £26.5 million.

4. The results show the SPCB Standard Contribution rate to be 31.2%. Currently the SPCB pays a reduced rate of 20.2%.

5. During a period of high inflation and volatility in the financial markets, the trustees commissioned additional analysis to understand the impact of the funding position. The results documented that the surplus had reduced from 134% as at 31 March 2022 to 117% as at 30 September 2022.

6. If the SPCB contribution rate was to remain at the current funding level of 20.2%, the surplus would be reduced to zero in approximately 14 years. This has reduced from 27 years in a period of six months due to rates of high inflation and increased market volatility.

7. Financial markets are expected to remain volatile for a couple of years resulting in a material impact on the funding of the SPPS.

8. Options proposed by the scheme actuary (as detailed in the appendix) for the SPCB contribution rate includes:

(a) Continue to pay 20.2% contribution rate, removing the surplus over an estimated 14 years

(b) Pay the full SPCB share of the contribution rate, 31.2%, maintaining the surplus at its current level, without a reduction rate for SPCB

(c) Increase the contribution rate in a stepped manner by 0.8% per year. This will utilise a reduced rate of the surplus, mitigating some risk from current market conditions.

9. Trustees of the scheme have recommended option (c) as a stepped approach would safeguard the scheme and SPCB from larger future increases to the sponsor contribution rate.

Governance

10. The Scottish Parliamentary Pensions Act 2009 makes provision for contributions from SPCB. As set out in Part D, section 32

(2) The SPCB must, when determining the amount of each annual sum, have regard to—
(a)the scheme actuary's recommended rate for future contributions (see rule 103(3)(c)), and
(b)any advice from the Fund trustees on the rate of future contributions.

Resource implications

11. An increase in sponsor contribution rate was not included in the 2023-24 budget review therefore the additional funds required will be covered from either within the overall Member expenses scheme budget funding if in year underspends arise; or drawn from the contingency budget. Increases to contribution rate for further years will be included within the yearly budget review.

The estimated financial impact is estimated as 23/24 £81k, 24/25 £162k, 25/26 £243k

Publication Scheme

12. This paper will be published in line with the SPCB's publication Scheme.

Next steps

13. If agreed, the Pay and Pensions Office will increase the sponsor pension contribution rate effective 1 April 2023 and apply this sponsor rate to all participating members of the SPPS.

14. The sponsor contribution rate will be increased on a yearly basis until the conclusion of the next valuation review in 2025.

Decision

15. The SPCB is invited to consider and agree the SPPS sponsor contribution rate for 2023-24, 2024-25 and 2025-26 as detailed in this paper.

Pay and Pensions Office
April 2023

Government Actuary's Department

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2 March 2023

Dear Corporate Body Members

Subject: Scottish Parliamentary Pension Scheme: Actuarial Valuation as at 31 March 2022

1. I am writing to the Scottish Parliamentary Corporate Body (SPCB), in its capacity as the scheme sponsor, regarding the funding valuation of the Scottish Parliamentary Pension Scheme (SPPS) as at 31 March 2022. Please find attached a copy of the draft valuation report, which will be presented to the meeting of the scheme's trustees on 7 March 2023.

Background

2. In accordance with rule 103 of the Scottish Parliamentary Pensions Act 2009 (the 2009 Act), the scheme actuary is required to perform an actuarial valuation of the scheme, and to make a report to the trustees of the scheme, at intervals of not more than three years.

3. The formal valuation report is required to include the scheme actuary's recommended rate of future contributions in the scheme. Rule 32 of the 2009 Act allows the SPCB to determine the contribution rate it should pay into the fund, having regard to the scheme actuary's recommendations and the view of the fund trustees.

Summary of 2022 valuation results

4. The key conclusions of the valuation are: -

   - The funding level as at 31 March 2022 is 134% and there is a surplus of £26.5 million;
   - the main factors having a positive impact on the funding position over the past three years are better than expected investment returns and lower actual salary increases than assumed;
   - the main factor having a negative impact on the funding position over the period is the SPCB contribution rate (20.2% of payroll) which was set at a level below the SPCB share at the 2019 valuation (33.1% of payroll) reflecting the surplus available in the scheme at the time;

- the SPCB's share of the assessed cost for members' continuing accrual of pension benefits (the 'Standard Contribution Rate') has reduced from 33.1% of payroll at the 2019 valuation to 31.2% at the 2022 valuation;
- the reduction in the SPCB's share of the assessed cost reflects lower expected future salary increases and lower anticipated future life expectancy improvements based on the updated assumptions for the 2022 valuation.

Initial considerations for the SPCB contribution rate

5. The current contribution rate payable by the SPCB is 20.2% of salaries. This was the rate recommended following the 2011, 2014, 2017 and 2019 valuations of the scheme. At the 2019 valuation, all other things being equal, the payment of SPCB contributions at this rate was expected to eliminate the surplus in the scheme around 12 years after the then valuation date.

6. Based on the latest valuation assumptions, if the SPCB continues to pay contributions at the rate of 20.2% of pensionable pay, the surplus as at the 31 March 2022 valuation is expected to be eliminated (all else being equal) around 27 years after the valuation date (or 23 years after the valuation date when allowing for the impact of the expected pension indexation of 10.1% in April 2023 based on the now known CPI inflation increase in the year to September 2022).

Recent market volatility and high inflation

7. Financial markets have been volatile over the past year. Since the valuation date the scheme's assets have experience significant negative performance and rising inflation has increased the cost of accrued liabilities in the SPPS.

8. At the request of the trustees, I carried out additional analysis to gauge the impact of the factors noted above and my analysis estimates that the funding position as at 30 September 2022 would be around 117% compared with 134% as at 31 March 2022. If SPCB contributions were to continue at 20.2% of pensionable pay, then I would expect the surplus as at 30 September 2022 to run down to zero in about 14 years, compared with 27 years expected as at 31 March 2022. The attached draft valuation report provides further information on this review.

Implications for the SPCB contribution rate

9. Financial markets continue to be volatile, and inflation may persist at higher levels for longer than currently anticipated, both of which could have a continuing material impact on the funding of the SPPS.

10. Options for the SPCB contribution rate include: -

    a) Continue to pay 20.2% of pay, removing the surplus over an estimated 14 years (based on the estimated position as at 30 September 2022);

    b) Pay the full SPCB share of the Standard Contribution Rate of 31.2% of pay;

    c) Pay a rate between those in (a) and (b) above, which only uses some of the surplus over the next 14 years, hence retaining some buffer against negative experience. For example, gradually increasing contribution from 20.2% to 31.2% over the 14 years period from the valuation date would maintain half the current surplus in the SPPS as a buffer against future negative experience.

11. At their meeting on 6 December 2022 the trustees considered the results of the 2022 valuation and the additional updated market analysis as at 30 September 2022. The trustees were minded that the SPCB contribution rate should start to gradually increase from the current level of 20.2% at a rate of 0.8% every year following the valuation (until the conclusion of the next review at the 2025 valuation). The position would be reassessed at the next actuarial valuation of the scheme as at 31 March 2025 based on market conditions at the time. A copy of the draft valuation report which reflects the trustees view is attached for your information.

Next steps

1. I would welcome the SPCB's views on the valuation, and in particular the level of future SPCB contributions. My colleague Memet Pekacar or I would be happy to discuss the valuation further with the SPCB if that would be helpful.
2. Once the SPCB has confirmed its decision on the contribution rate, I shall finalise my formal report to record the details of this valuation of the SPPS as at 31 March 2022. A copy of the final report will also be forwarded to the SPCB once it is completed.
3. In the meantime, if you require any additional information or would like to discuss anything further then please let me know.

Yours sincerely

Martin Clarke