

Preliminary Results of the Actuarial Valuation of the SEC Pension Fund as at 31 December 2020

A valuation of the Pension Fund is undertaken every three years. This paper sets out the preliminary results of the valuation as at 31 December 2020 and makes a recommendation regarding future contribution rate.

At the time of the previous valuation, as at 31 December 2017, the Technical Provisions funding position, as advised by the Scheme Actuary, indicated that there was a surplus of £3.7m on the Fund, and that the cost of future pension accrual required a future contribution rate of 35.9% of standard stipend or salary. The surplus on the Pension Fund allowed a degree of flexibility in relation to the funding of the future contribution rate and General Synod 2018 accepted a joint proposal from the Trustees and Standing Committee to retain the then actual contribution rate at 32.2% from 1 January 2019.

The Trustees receive regular funding updates from the Scheme Actuary. They met in March 2021 to set the assumptions for the 2020 valuation. These include investment returns, inflation, future stipend and salary increases, mortality rates, retirement age, pension increases, and the proportion of members married or in civil partnerships. Pensions legislation requires that the assumptions adopted by the Trustees are based on prudent principles.

The assumptions are used to calculate the Technical Provisions. These cover two areas.

1. Past Service funding level

This is an estimate of whether the Fund holds sufficient assets to cover the costs of providing benefits that have already been accrued by members. If there is a deficit the Trustees are required to submit a recovery plan. The key changes that have affected the 2020 results are:

- Investment returns have been higher than assumed (positive impact)
- Change to demographic assumptions (positive)
- Change in market conditions (negative)

2. Future service contribution rate

This is the estimated cost of accruing future benefits for serving members of the Fund. The key changes that have affected the 2020 rate are:

- Changes in market conditions (negative impact)
- Change to demographic assumption (positive)

Employer Covenant

Assessment of the strength of the Employer Covenant is fundamental to the valuation process. The Trustees considered Standing Committee's Employer Covenant Report and reviewed their assessment of the Covenant. The Trustees are satisfied that there have been no material changes since the 2017 valuation that would affect their assessment of the Covenant as positive.

Preliminary results

The results on a technical provisions basis indicated a future service contribution rate of 41% and a surplus of £5.6m. The Trustees considered that they would be willing to use some of the surplus to keep the contributions actually payable to the current reduced rate, below the future service rate. The Chair of the Trustees met with Standing Committee since the preliminary results became available and confirmed the Trustees' view that the contribution rate payable be maintained at 32.2% from 1 January 2022. Standing Committee endorsed the proposal for submission to General Synod.

The following motion to continue the contribution rate at its current level is therefore to be proposed to Synod 2021:

That the contribution rate in relation to serving clerical and staff members of the Scottish Episcopal Church Pension Fund be maintained with effect from 1 January 2022 at 32.2% of standard stipend and salary respectively.

Richard McIndoe, Chair, Pension Fund Trustees
Bridget Campbell, Convener, Standing Committee

May 2021