



Government Actuary's Department

The National Assembly for Wales Members' Pension Scheme

Valuation as at 1 April 2014

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1 Summary

To: The Trustees of the National Assembly for Wales Members' Pension Scheme

- 1.1 We have carried out the actuarial valuation of the National Assembly for Wales Members' Pension Scheme (NAfW MPS) as at 1 April 2014. 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 liabilities accrued up to the valuation date (including an allowance for future expenses) is assessed as £21.91 million. The market value of the assets on the same date is £25.49 million. The surplus at 1 April 2014 is accordingly £3.58 million, as set out below:

	Value at 1 April 2014 (£ million)	Value at 1 April 2011 (£ million)
Liabilities	21.91	17.15
Assets	25.49	18.79
Surplus (deficit)	3.58	1.64
Funding level (= assets / liabilities)	116.3%	109.5%

Future Service assessment

- 1.3 Based on the method and assumptions adopted for this assessment, the cost of benefits accruing in the NAfW MPS for each year of membership is assessed as 35.2% of pensionable payroll, including an allowance for scheme expenses. The corresponding figure as at 1 April 2014 was 35.3%.
- 1.4 Members' contributions to the Fund are expected to average 9.9% of pensionable payroll for the remainder of the current Assembly term. The Assembly's share of the cost of accruing benefits is therefore assessed as 25.3% of pensionable payroll, including an allowance for scheme expenses.

Past Service

- 1.5 Assembly contributions could be reduced to a level lower than the Assembly's share of the cost of accruing benefits in order to remove the surplus. Removing the surplus of £3.58m over a 15-year period would result in a reduction of 6.5% of pensionable payroll from the Assembly's share of the cost, to 18.8% of pensionable payroll. This would be an appropriate rate of Assembly contributions, however following discussions with the Trustees we are able to recommend a continuation of the current more prudent rate of 23.8% of pensionable payroll in the interests of stability and in view of the relative immaturity of the fund.



Recommended Assembly contribution rate

1.6 Section S3(b) of the Rules says:-

“Each report by the Actuary shall

- (a) advise on the liabilities of the Scheme compared to its assets;
- (b) recommend a contribution rate to be paid by the National Assembly for Wales (via its relevant entity) to the Scheme.”

Taking into account the factors described in this report, we recommend that the Assembly contribution payable from 1 April 2015 should be 23.8% of pensionable payroll.

- 1.7 The National Assembly for Wales Remuneration Board have published proposals¹ for a new benefit structure to take effect from May 2016. We have seen draft rules for the new benefit structure, however there are still a few areas of detail to be clarified, and as such this report only considers the existing benefit structure, except for the impact that a later retirement age may have on Assembly Members' (AMs') retirement patterns.
- 1.8 Following the finalisation of the new scheme rules, we will provide an updated recommendation for the Assembly contribution.
- 1.9 The approach adopted to deriving the financial and demographic assumptions has been to determine assumptions which are broadly best estimate. A draft of this report has been shared with the Trustees, who are content with the approach adopted.

Limitations

- 1.10 This report has been prepared for the Trustees of the National Assembly for Wales Members' Pension Scheme (“the Trustees”). We are content for the Trustees to release this report to third parties, provided that:
- > it is released in full
 - > the advice is not quoted selectively or partially
 - > GAD is identified as the source of the advice, and
 - > sufficient background material is provided to put these figures into context.
- 1.11 Third parties whose interests differ from those of the Trustees should be encouraged to seek their own actuarial advice where appropriate.

¹ <http://www.senedd.assembly.wales/mgConsultationDisplay.aspx?ID=136>



- 1.12 Other than the Trustees, no person or third party is entitled to place any reliance on the contents of this report, except to any extent explicitly stated herein, and GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. If any contents of this report are to be used to inform any Government policy decisions GAD should be consulted before those decisions are made.



2 Introduction

- 2.1 **Governing Legislation** The National Assembly for Wales Members' Pension Scheme ("the Scheme") is the pension scheme for Members of the Welsh Assembly, Welsh Government ministers and other Assembly office holders. The Scheme was established by a direction made by the Secretary of State for Wales under Section 18(1)(b) and (3) of the Government of Wales Act 1998, which came into force on 5 May 1999. Section 20(4) of and Schedule 11 to the Government of Wales Act 2006 provides continuity for the Scheme. The Scheme is not subject to the requirements of the Pensions Act 2004.
- 2.2 **Benefit Provisions** The National Assembly for Wales Members' Pension Scheme Rules 2006 (as amended) ("the 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. The main benefit provided is a pension to members from the age of 65, defined as $\frac{1}{40}^{\text{th}}$ or $\frac{1}{50}^{\text{th}}$ of final pensionable pay for each year of service, with members' contributions payable at the rate of 10% or 6% of pay respectively. AMs who also hold a ministerial or other office holder position accrue additional benefits in the supplementary scheme on their salary as a minister or other office holder. A summary of the benefit provisions of the Scheme at the valuation date is given in Appendix A.
- 2.3 **Requirement for a valuation** Section S2(2) of the Rules requires the Actuary to make a report on the general financial position of the Scheme at least every three years. The previous report by the Actuary related to the position as at 1 April 2011 and this report relates to our assessment as at 1 April 2014. This report gives an assessment of the financial position of the Scheme as at this date, together with our recommendation as to the contributions to be paid by the National Assembly for Wales ("the Assembly") to the Scheme following the valuation.
- 2.4 **Previous actuarial valuation** The previous actuarial valuation was carried out as at 1 April 2011 by Trevor Llanwarne and Ian Boonin of the Government Actuary's Department.
- 2.5 At the previous valuation the liabilities were assessed as being £17.15m and the market value of the assets was £18.79m; this equated to a funding level of 109.5%. The recommendation for the rate of Assembly contributions was to continue paying contributions at the existing rate of 23.8% of pay.



3 Contributions and developments since the 2011 valuation

- 3.1 **Member contributions** During the period from April 2011 to March 2014, contributions from members were paid at the rate of 10% of pay for members who had opted for 1/40th accrual and 6% of pay for members who had opted for 1/50th accrual.
- 3.2 **Assembly contributions** The recommendation following the actuarial valuation in 2011 was that the rate of contributions payable by the Assembly should continue to be 23.8% of pensionable salaries from 1 April 2012, and Assembly contributions have been paid at this rate since 1 April 2009.
- 3.3 **Developments since the 2011 valuation** A couple of changes were made to the Scheme during the inter-valuation period:
- (i) The introduction of a two tier ill health provision from 1 April 2013;
 - (ii) An amendment to clarify the position on ill-health pensioners standing for re-election to the Assembly.
- 3.4 **Proposed changes to the Scheme** The National Assembly for Wales Remuneration Board published proposals in July 2014 for a revised, Career Average Revalued Earnings (CARE) benefit structure to take effect following the Assembly election in May 2016.
- 3.5 We have seen draft rules for the new benefit structure, however there are still a few areas of detail to be clarified, and as such this report only considers the existing benefit structure, except for the impact that a later retirement age may have on AMs' retirement patterns.
- 3.6 Following the finalisation of the new scheme rules, we will provide an updated recommendation for the Assembly contribution to be payable following the introduction of the new benefit structure in May 2016.



4 Membership data and accounts

- 4.1 The data for the actuarial valuation was provided by the secretariat to the Trustees of the Scheme. In performing this valuation we have relied on the accuracy of the information provided to us. GAD has carried out reasonableness checks on the data provided and has had discussions with the Secretariat to establish the validity of the data. GAD has further checked the data for consistency with information shown in the accounts and other publicly available sources and we consider the data is sufficient for the purposes on this assessment. We have not however carried out a full “audit of the data”.
- 4.2 Appendix B summarises the membership of the Scheme at the valuation date, and the changes in membership since 2011. Comments on the main changes in membership during the period from 1 April 2011 to 1 April 2014 are given below.
- 4.3 **Assembly Members** On 1 April 2014, there were 60 AMs who were active members of the Scheme. Assembly Members who are concurrently members of the UK or European Parliament are pensioned in the Scheme based on only one-third of the full Assembly salary.
- 4.4 The average pensionable service for AMs (including service credited from transfers in from other pension schemes and additional years of service purchased by members) decreased from 10.1 years at the 2011 valuation to 9.4 years at this current valuation.
- 4.5 **Office Holders** A number of AMs also hold ministerial or other office holder positions. Details of benefits received as an office holder in the supplementary scheme are contained in Appendix A. At the valuation date there were 34 ministers and other office holders who were actively participating in the supplementary scheme.
- 4.6 **Salaries** In the three-year period since the 2011 valuation, the annual salary for Assembly Members has remained at £53,852. The pensionable payroll for AMs (excluding any salary as an office holder) was £3.23 million at the valuation date. The pensionable payroll for office holders (excluding their salary as an AM) was £0.86 million, giving a total pensionable payroll for active members of the Scheme of £4.09 million.
- 4.7 **Deferred Members** On 1 April 2014, there were 21 former AMs and office holders who were not yet in receipt of pension, but who retained an interest in the Scheme in the form of an entitlement to deferred benefits, generally coming into payment at age 65. This compares with 14 deferred members as at 1 April 2011. The average amount of deferred pension increased from approximately £7,200 a year to £10,600 a year, including cost of living increases up to the valuation date.



- 4.8 In addition to the current office holders, there were 4 former office holders, who were still Assembly Members, who had actively participated in the supplementary scheme in the past. Those AMs will be entitled to a supplementary pension when they leave the Assembly.
- 4.9 **Pensioners** In the inter-valuation period, the number of pensioners increased from 18 to 33. These figures include pensions payable to dependants of deceased former members.
- 4.10 The total amount of pensions in payment increased over the inter-valuation period from £128,000 to £372,000. This reflects the increased number of pensioners and the annual pension increases awarded under the Pensions (Increase) Acts. The average amount of pension in payment was approximately £11,300 a year on 1 April 2014.

Financial data

- 4.11 **Accounts** Taken from the published accounts, the income and expenditure of the Scheme in the three-year period from 1 April 2011 to 31 March 2014 is summarised in Appendix C. On the basis of the market value of the investments, the Scheme's assets increased over the period by £6.703 million, from £18.785 million to £25.488 million. The table below shows a breakdown of the increase:

Increase in Assets 2011-2014

	£ million	£ million
(1) Start amount at 1 April 2011	18.785	
(2) Contributions (including transfer payments received by the fund)		4.475
(3) Benefits paid (including transfer payments out of the fund)		1.797
(4) Management expenses incurred (excluding investment management expenses)		0.200
(5) Net cash income = (2) - (3) - (4)		2.479
(6) Return on investments (net of investment management expenses)		4.224
(7) Total increase in fund = (5) + (6)	6.703	6.703
(8) End amount 31 March 2011	25.488	

- 4.12 As would be expected for a relatively new fund, contribution income has been substantially in excess of benefit expenditure. As the fund continues to mature, benefit expenditure can be expected to continue increasing relative to contribution income.



- 4.13 **Investments** Appendix D contains a summary of the underlying investment classes held by the NAfW MPS at 31 March 2014. This shows a majority of the investments (about 82% by market value) in equity shares or other return seeking assets
- 4.14 At the valuation date, about 46% of the total Fund was invested in the Baillie Gifford Managed Pension Fund; about 44% was invested in the Baillie Gifford Diversified Growth Pension Fund (DGPF) and about 9% was invested in the Baillie Gifford Index-Linked Pension Fund, with the rest of the Fund in cash deposits or net current assets. The bulk of the assets invested in the Managed Fund are held in equities, with the balance being in bonds and cash. The DGPF invests in a wide variety of assets. Net income to the Scheme is currently being invested in the proportion of 85% in the DGPF, and 15% in the Index-Linked Pension Fund. No new money is being invested in the Managed Fund, and therefore the proportion of the Scheme's assets invested in equities is currently decreasing.
- 4.15 The investment return achieved on the scheme's assets over the three years since the last valuation was an average of 6.6% a year. However, there was some variation within the three-year period, with the percentage return achieved in each year since the last valuation being as follows:

Period	Investment return
1 April 2011 to 31 March 2012	+4.1%
1 April 2012 to 31 March 2013	+12.9%
1 April 2013 to 31 March 2014	+3.1%

- 4.16 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 as at 1 April 2014.



5 Funding objective and valuation method

- 5.1 **Funding Objective** The principal objective is to maintain a fund of assets which is expected to be sufficient to provide the benefits promised to members and their beneficiaries. This objective is as advised by the Trustees of the Scheme, taking into account advice from the Actuary.
- 5.2 Another important aim as advised is to ensure that accruing benefits are paid for during members' participation in the NAfW MPS and that the charges borne by the Assembly 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.
- 5.3 **Valuation method** For this valuation, we have retained the same valuation method as was adopted for the previous valuation as at 1 April 2011. 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. 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.
- 5.4 **Actuarial liability** 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 Assembly Members and office holders in respect of service prior to the date of the valuation. These liabilities include the value of any pension rights transferred into the NAfW MPS from other pension arrangements. The liability in respect of active members is assessed by summing the discounted present value of the benefits accrued to the valuation date, based on earnings projected to retirement, or earlier exit, 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.
- 5.5 In addition to the 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. The value of the assets held in the fund can then be compared directly with this *Actuarial Liability*.



- 5.6 **Standard Contribution Rate** The *Standard Contribution Rate* is the rate of contributions which would need to be paid in order to meet the cost of pension benefits accruing over a defined period ("the control period"), if there were no surplus or deficiency in the Scheme. A one-year control period has been used. 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.
- 5.7 This rate should remain reasonably stable, provided that members who leave service are replaced by new entrants so that the distribution of active members by age and sex does not change significantly, and provided the proportion of members on each rate of benefit accrual remains broadly unchanged. If, in practice, the average age of the active membership rises over time, the *Standard Contribution Rate* could be expected to increase slightly. If the average age of the active membership falls, then the *Standard Contribution Rate* could be expected to fall. This might happen, for example, following an Assembly Election if a number of older members retiring were to be replaced by younger members.
- 5.8 **Required contribution rate** The required contribution rate is obtained by reducing (or increasing) the *Standard Contribution Rate* to reflect any surplus (or deficiency) between the value of the assets and the value of the *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). At the 2008 valuation, a period of 15 years was adopted to amortise the deficit.
- 5.9 **Office holders** Office holders who participate in the supplementary scheme pay supplementary contributions on their pensionable salary as an office holder. In most cases, AMs will be office holders for only part of their service as an AM. 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. When pensions come into payment under the supplementary scheme for office holders, they are aggregated with pensions accrued as an Assembly Member (where applicable), and so are not shown separately in the valuation results.
- 5.10 **Discontinuance** The valuation method described above deals with the position of the Scheme on the basis that it will continue. We have not considered the position on winding up the Scheme as we understand that the benefit levels are effectively guaranteed by the legislation and do not depend specifically on the amount of accumulated assets. The Rules contain no provisions to determine the wind up or discontinuance of the Scheme. It is our understanding that the National Assembly for Wales Members' Pension Scheme is exempt from the Statutory Funding Objective which was introduced for private sector occupational pension schemes by the Pensions Act 2004.



6 Actuarial assumptions

- 6.1 The principal financial and demographic assumptions used to assess the funding level of the Scheme, the level of Assembly contributions and the amortisation of the deficit are set out below. Full details are set out in Appendix E and discussed in the following paragraphs.

Principal financial assumptions

	1 April 2014	1 April 2011
Gross rate of return	5.8%	6.6%
Real rate of return, net of earnings increases	1.5%	1.25%
Real rate of return, net of price/pension increases	3.5%	3.5%

Principal demographic assumptions

Members	Mortality table
Males (retirements in normal health and dependants)	80% of SAPS (normal health males amounts) U=2014
Females (retirements in normal health and dependants)	85% of SAPS (normal health males amounts) U=2014
Male (ill-health pensioners)	80% of SAPS (ill-health males amounts) U=2014
Females (ill-health pensioners)	85% of SAPS (ill-health females amounts) U=2014

- 6.2 The approach adopted to deriving the financial and demographic assumptions has been to determine assumptions which are broadly best estimate.
- 6.3 A number of changes have been made to the assumptions compared with those adopted at the previous valuation and these are discussed below.



Demographic assumptions

- 6.4 Assumptions are needed on such factors as rates of mortality, retirement and withdrawal from the Assembly. Where possible, the past experience of the Scheme is used as a guide. However, as the Scheme is too small for the experience to be statistically significant enough to derive all the demographic assumptions, we have also had regard to experience and trends in other larger schemes. In considering the appropriateness of the assumptions for an actuarial valuation, it is important to have regard to the long-term, taking account of the likely incidence of Assembly Elections. Changes to the demographic assumptions compared to those adopted at the 2011 valuation are described below.

Pensioner longevity

- 6.5 The NAfW MPS is a small scheme and the number of pensioner deaths is not large enough to draw statistically robust conclusions about future mortality rates.
- 6.6 For the 2011 valuation, the baseline mortality assumptions adopted were based on mortality tables published in 2008 relating to the experience of self-administered pension schemes in the UK, known as 'SAPS' tables. The particular set of tables used for the 2011 valuation are known as 'SAPS light', and relate to the experience of members of such schemes with large pensions, who exhibit lighter mortality. 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') 2010-based UK population projections.
- 6.7 For the 2014 valuation, we have considered whether we could refine the approach used to consider the characteristics (particularly socio-economic) of the NAfW MPS membership and their similarity with other large public service pension schemes. On this basis, we have used the mortality assumptions which were also adopted for the valuation of the NHS Pension Scheme in England and Wales² (NHSPS), for the reasons described below.
- 6.8 There are differences in longevity in different socio-economic groups, and so we have considered the ONS report *Age specific mortality rates by National Statistics socio-economic classification*³ published in February 2013. There are seven socio-economic classes in the National Statistics socio-economic classification. AMs would be considered primarily to fall into class 1 'higher managerial and professional'. NHS employees will fall into a range of classes including class 1 which includes medical practitioners.
- 6.9 As the NHS membership has a high proportion of professional staff with characteristics likely to be comparable to NAfW MPS members, we have adopted the NHSPS assumptions for the valuation of the NAfW MPS. The mortality assumptions adopted for the NHSPS 2012 valuation are aligned to 80% of the standard S1NMA SAPS table for males, and 85% of the standard S1NFA SAPS table for females.

² <https://www.gov.uk/government/publications/nhs-pension-scheme-actuarial-valuation>

³ http://www.ons.gov.uk/ons/dcp171778_301162.pdf



- 6.10 This is a different approach to the previous valuation, when standard mortality tables were adopted without adjustment. The standard mortality table adopted is based on mortality rates from a wide range of self-administered pension schemes, however as there are differences in longevity in different socio-economic groups, we feel it is more appropriate to consider the mortality assumptions based on experience in a scheme with a similar membership than that underlying the standard table.
- 6.11 We have assumed future improvement in accordance with the assumptions made for the latest, 2012-based population projections of the UK. The table below compares the life expectancy of a 65 year old pensioner using assumptions adopted for the previous NAfW MPS valuation, and those adopted for the 2012 valuation of the NHSPS, that have been adopted for the 2014 valuation.

Expectations of life at normal retirement at age 65

	Valuation date	
	2014	2011
Current pensioners		
Male	25.4	24.8
Female	27.3	25.9
Future pensioners (Actives & deferreds currently aged 50)		
Male	27.1	26.4
Female	29.0	27.6

- 6.12 **Assembly terms** At the previous valuation, Assembly Elections were assumed to take place every five years, with the next election taking place in May 2016. We have retained this assumption for the 2014 valuation.
- 6.13 **Career patterns** Allowance was made at the 2011 valuation for the actual turnover of members at the May 2011 Assembly Election took place in May 2011, so there is no further evidence for us to analyse. However we have amended the assumptions to reflect likely changes in AMs' future decisions regarding when to step down from the Assembly which may result from the change in benefit structure from May 2016. In particular the linkage of Normal Retirement Age (NRA) to State Pension Age (SPA) is likely to affect AMs' decisions regarding when to step down from the Assembly. This will also have an impact on the value of the benefits they have accrued in the existing scheme.



- 6.14 The current assumptions have a step up at age 63, with 80% of members age 63 to 75 assumed to leave the Assembly at each election. This is two years below the Scheme's current normal retirement age of 65, and so for the new benefit structure we have updated the assumption so that age 63 is replaced with 'SPA minus 2'.
- 6.15 It is proposed that members aged 55 or above on 1 April 2012 will be protected and will continue to accrue benefits under the existing scheme, and so would not be affected by the proposals. Around half of current AMs will be eligible for protection, and we propose that the existing turnover assumption is retained for those members.
- 6.16 For members not entitled to the protection described above, we have divided into two groups, whereby those who would be expected to have the majority of total service in the new scheme move to the revised turnover assumption, and those who would be expected to have the majority of their service under the existing scheme would retain the current turnover assumption.
- 6.17 The table below summarises the turnover assumptions for the valuation 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.

Age at election date	Proportion of members with protection who leave the Assembly
Under 63	25%
63 to 75	80%
75	100%

- 6.18 The table below summarises the turnover assumptions for the valuation for members not entitled to protection who would be expected to have the majority of total service on the revised benefit structure.

Age at election date	Proportion of new joiners who leave the Assembly
Under 'SPA minus 2'	25%
'SPA minus 2' to 75	80%
75	100%

- 6.19 This aims to reflect the withdrawal patterns occurring in practice, as members are unlikely to leave the Assembly between elections, or exactly at their normal retirement age. The table below shows the average age that current members are assumed to leave the Assembly. The main reason for the change is that the previous valuation was at the start of the Assembly term, whereas the current valuation is three years into the Assembly term, and so the next election is three years closer than was the case at the previous valuation.



Assumed age at leaving the Assembly

Age at valuation date	Average expected age of leaving the Assembly	
	2014 valuation (next election 2016)	2011 valuation (having been elected or re-elected in 2011) (next election 2016)
40	54	56
50	61	62
60	67	66
70	73	75

- 6.20 Under the revised benefit structure which is due to be implemented from May 2016, Normal Retirement Age will be linked to State Pension Age. We have adopted the assumptions for State Pension Age that have been adopted for valuations of other public service pension schemes as at 31 March 2012, as set out in The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 issued by HM Treasury⁴.
- 6.21 These follow State Pension Age as set out in legislation up to and including changes introduced by Pensions Act 2014 but do not allow for any further changes under the review mechanism set out in that Act.
- 6.22 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 do not cover this valuation of the Scheme. We have therefore drawn information from the Directions where relevant, but in particular the financial assumptions adopted for this valuation are different to those set out in HM Treasury's Directions, due to the different purpose of this valuation.

Financial assumptions

- 6.23 The main financial assumptions adopted for this valuation are summarised in paragraph 6.1.
- 6.24 **Value of liabilities** For the valuation, the liabilities, which comprise the future outgo on benefits and expenses, need to be compared with the value of the Scheme's assets. In order to compare the value of these items, the liabilities have been capitalised as at the valuation date, by discounting the future streams of outgo with allowance for interest and the probability of payment. As the outgo will occur over a very long period in the future (as much as sixty years or more in the case of current contributing members) the assumptions which have to be made as to investment return and inflation rates necessarily relate to this very long period in the future.

⁴ <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism>



- 6.25 **Discount rate** The discount rate is based on the assumed returns expected from the Scheme's investments. On this basis, the 2011 valuation used a discount rate of $3\frac{1}{2}\%$ a year (in excess of CPI).
- 6.26 The table below shows proportion of the Scheme's assets in different asset classes 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. As discussed in paragraph 4.14, the proportion of the Scheme's assets currently invested in equities is decreasing, and as such the overall expected return on the Scheme's assets is also decreasing, though the level of return achieved should be more stable.

Assets at 1 April 2014

Asset class	Total fund	Expected return in excess of CPI at 1 April 2014
Equities	38.3%	4.5%
DGPF	43.5%	3.5%
Bonds, cash and net current assets	18.2%	1.05%

- 6.27 Both equities and the DGPF are expected to provide returns in excess of inflation over the long term and our expectation of the return for those asset classes has been determined based on assumed performance in excess of inflation. The bond holdings include index linked gilts, which are assumed to be relatively risk free and provide a yield in excess of RPI. The return shown in the table reflects the market yield available on long term index linked gilts at the valuation date, adjusted for our view of the long term difference between RPI and CPI inflation as described in paragraph 6.30.
- 6.28 Considering the Scheme's current investment strategy and the return expected on those assets at the valuation date, the expected return on the Scheme's investments is around $3\frac{1}{2}\%$ a year in excess of CPI. An assumption of $3\frac{1}{2}\%$ a year above CPI remains an appropriate best estimate assumption.
- 6.29 **Price inflation** The NAfW MPS provides benefits linked to CPI inflation and, as there is no significant market in CPI linked securities, it is therefore necessary to estimate future CPI inflation by adjusting assumed RPI inflation. The assumed rate of future RPI inflation is determined by comparing the yields on fixed-interest gilts with the yields on index-linked gilts and allowing for any inflation risk premium in the price of index linked gilts (the premium that investors are willing to pay for the inflation protection provided by these gilts). As at 1 April 2014, the difference in yields, over a period consistent with the NAfW MPS liabilities, was 3.65% per annum. We have assumed that a deduction of 0.25% to this difference is representative of the inflation risk premium that applied at that time. Therefore, our best estimate of future RPI inflation as at 1 April 2014 is 3.4% per annum.



- 6.30 Historically CPI inflation has been lower than RPI inflation as a result of the methods used to calculate the statistics and variations in the components included within each calculation. Based on historic analysis and analysis by ONS and other commentators, our current best estimate of the long term difference between RPI and CPI inflation is 1.15% a year. Allowing for an RPI assumption of 3.4% per annum, this makes the CPI assumption 2.25% per annum.
- 6.31 **Pension increases** Pension increases on pensions in payment and in the deferred period are generally in line with increases to the Consumer Prices Index. Hence, this assumption is taken to be 2.25% per annum. This is consistent with market yields and with a market value approach for valuing the Scheme's assets. It therefore represents an average, long-term assumption.
- 6.32 **Nominal investment return** The combination of a return in excess of CPI of 3.5% and CPI inflation of 2.25% produces a nominal rate of investment return of 5.8% pa.
- 6.33 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).
- 6.34 **Pay increases** The benefits currently accruing during service are linked to increases in members' pay, and it is therefore necessary to consider what increases in future pay levels might reasonably be anticipated. Real salary inflation has been assumed to be 2% pa in excess of CPI. This is a slight reduction from the assumption used in 2011 that salaries would increase by 2.25% pa in excess of CPI. The reduction in real salary growth reflects the effect of recent pay restraint on the observed rates of real salary growth over the long-term.
- 6.35 **Expenses** Administration expenses incurred by the Scheme during the three-year inter-valuation period were around £200,000, excluding investment management costs. For the previous valuation, the Standard Contribution Rate included an allowance for future service expenses of around 1% of pay, and a reserve of £½m was set aside for expenses. Expenses levels over the inter-valuation period were around 1.65% of payroll. For the 2014 valuation we have retained the expense allowance to £½m (and retained the 1% addition to the contribution rate). The costs of investment management are implicitly taken into account in determining the rate of return on investments assumed for this valuation.



7 Valuation result – Funding level

- 7.1 The results of the valuation are considered in two parts. The first part deals with the liabilities that have already accrued for current and former members in respect of service given before the valuation date (the *Actuarial Liability*), and the results for this aspect are set out at paragraph 7.2 below. The second part of the valuation deals with the liabilities expected to accrue in respect of future service for current members (the *Standard Contribution Rate*), and this is discussed in Section 8 below.
- 7.2 **Past Service assessment** The liabilities for past service and the assets of the Scheme have been determined on the methodology set out in section 5 of this report, using the actuarial assumptions described in section 6. The results of the valuation in relation to past service liabilities are set out below:

Valuation statement as at 1 April 2014 – Past Service

		Value at 1 April 2014 (£ million)
(1)	Current members – service up to 1 April 2014:	
(2)	(a) Assembly Members	10.06
	(b) Office holders	1.91
(3)	Members with deferred benefits:	
(4)	(a) Former members	2.93
	(b) Former office holders who are still AMs	0.08
(5)	Pensions in payment:	
(6)	(a) Pensioners	6.06
	(b) Surviving dependants of former members	0.37
(7)	Total liabilities for benefits = (1) to (6)	21.41
(8)	Reserve for administration expenses	0.5
(9)	Actuarial liability = (7) + (8)	21.91
(10)	Value of assets	25.49
(11)	Excess of assets over liabilities = (10) – (9)	3.58
(12)	Ratio of assets to liabilities = (10) / (9)	116.3%



- 7.3 The figures in the Valuation statement show that the Scheme has a relatively immature liability profile. The liability for the past service of current members, at around £11.97 million (rows (1) and (2) above), is significantly larger than the liability in respect of former members and dependants in receipt of pension at £6.43 million (total of rows (5) and (6) above). The aggregate liability for accrued benefits of current members at the valuation date is 56% of the total liability, whereas 44% relates to former AMs and office holders, including deferred members, (30% pensioners and 14% deferreds). The liability profile is expected to continue to mature for the foreseeable future.
- 7.4 **Analysis of surplus** The result of the valuation shows a move from a surplus of £1.64 million to a surplus of £3.58 million over the three-year period to the valuation. The key factors influencing the change are shown below.

Summary of change in surplus 2011-2014

	£ million
Surplus at 1 April 2011	1.64
Interest on surplus	0.35
Contributions payable at lower rate than Standard Contribution Rate	(0.23)
Changes to financial assumptions from those adopted at previous valuation	0.19
Changes to demographic assumptions from those adopted at previous valuation	(0.19)
Salary growth lower than assumed	1.72
Miscellaneous	0.10
Surplus at 1 April 2014	3.58



8 Valuation result – Contribution requirement

- 8.1 **Future Service assessment** The cost of benefits accruing for future service is assessed by means of the *Standard Contribution Rate*, as described at paragraph 5.6 of this report. The *Standard Contribution Rate* calculated on the actuarial assumptions set out in section 6 of this report is 34.2% for AMs and office holders combined, excluding the allowance of 1% for scheme expenses.
- 8.2 Contributions are payable by members at the rate of 6% or 10% of pensionable salaries. On the basis of current members' chosen accrual rates, members' contributions are expected to average 9.9% of the Scheme's pensionable payroll for the remainder of the current Assembly.
- 8.3 The Assembly's share of the *Standard Contribution Rate*, which is the balance of costs that would fall to be met by the Assembly in the absence of any surplus or deficiency, is assessed as 24.3% of pensionable salaries (being 34.2% less 9.9%) excluding the allowance of 1% for scheme expenses.
- 8.4 The Standard Contribution Rate can be expected to remain broadly stable if the distribution of the membership by age, salary, length of service and each member's chosen accrual rate remain broadly constant, and if there is no change in actuarial assumptions.
- 8.5 **Recommended rate of Assembly contributions** Under Section S3(b) of the Rules, we are required to determine the rate of Assembly contributions to the fund.
- 8.6 As shown in the Valuation Statement at paragraph 7.2, a surplus of assets relative to liabilities has arisen since the previous actuarial valuation. The surplus is assessed as £3.58 million. It would be possible for Assembly contributions to be reduced to a lower level than the Standard Contribution Rate in order to remove the surplus.
- 8.7 At the 2008 valuation, the deficit was amortised over a 15-year period, which reflected a reasonable approach to funding where there is a desire to keep the impact of surpluses/deficits to a relatively low level.
- 8.8 If the surplus at this valuation were to be removed over a 15-year period, this would result in a reduction of 6.5% to the Assembly share of the Standard Contribution Rate.
- 8.9 On this approach, the contribution rate required to be paid from 1 April 2015 to meet the cost of benefits currently accruing in the Scheme, and by the Assembly to remove the surplus, would be 18.8% of the pensionable salaries of scheme members. No allowance has been made for any further surplus or shortfall that may have arisen between the valuation date and the date the revised contribution rate becomes payable.



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

	1 April 2014 (%)	1 April 2011 (%)
Standard Contribution rate	34.2	34.3
Average member contribution rate	9.9	9.8
Assembly's share of the Standard Contribution rate	24.3	24.5
Expenses	1.0	1.0
Surplus contributions	(6.5)	(2.9)
Required Assembly contribution after deficit/surplus contributions	18.8	22.6

8.11 **Analysis of change in total required rate** The change to the total required rate of contributions – from 32.4% (consisting of Assembly contributions of 22.6% plus member contributions of 9.8%) to 28.7% (consisting of Assembly contributions of 18.8% plus member contributions of 9.9%) of scheme payroll – is largely due to the emergence of the additional surplus. The table below summarises the main factors that account for the change to the required rate of contributions.



**Decrease to Required Contribution Rate (Assembly and members combined)
(% of salary)**

Required contribution rate following 2011 valuation (22.6% employer plus 9.8% member)		32.4%
<i>Future service change</i>		
Impact of changes to membership		+0.4%
Changes to financial assumptions from those adopted at previous valuation		-0.5%
Changes to demographic assumptions from those adopted at previous valuation		0.0%
Change in future service cost		-0.1%
<i>Past service change</i>		
Divergence of scheme's experience from actuarial assumptions		-3.4%
Changes to financial assumptions from those adopted at previous valuation		-0.5%
Changes to demographic assumptions from those adopted at previous valuation		+0.3%
Change in cost of amortising surplus / deficit		-3.6%
Required contribution rate following 2011 valuation		28.7%

- 8.12 The required Assembly contribution rate of 18.8% of pay would be an appropriate rate. However, following discussions with the Trustees, we are able to recommend a continuation of the more prudent rate of 23.8% of pay in the interests of stability and in view of the relative immaturity of the fund. This is equivalent to removing the surplus over a period substantially longer than 15 years, so is a more prudent approach than paying the rate described above. If the experience of the Scheme is in line with the assumptions adopted for this valuation, the nominal surplus at the next triennial valuation would be expected to be greater than the surplus at this valuation, at around £3.9 million.



9 Sensitivities

9.1 We have considered how sensitive the results are to changes in the assumptions, and to scheme experience differing from the assumptions. The table below illustrates the sensitivity of the liabilities and contribution rate as at 1 April 2014 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.)

9.2 **Investment return** For the purposes of the valuation we have assumed that the Scheme's investments will produce returns of 3.5% a year above the level of price inflation over the long term. The results that would have been obtained using investment yield assumptions of 0.5% per year more than or less than this are shown in the table below.

	Investment returns net of price inflation		
	Valuation assumption	+0.5% ie 4.0% per year	-0.5% ie 3.0% per year
Surplus at 1 April 2014	£3.58 million	£5.42 million	£1.47 million
Contribution Rate to remove surplus over 15 years	(6.5%)	(10.2%)	(2.6%)
Assembly share of Standard Contribution rate (including expenses)	25.3%	21.7%	29.4%
Required Assembly contribution Rate	18.8%	11.5%	26.8%

9.3 **Salary Growth** For the purposes of the valuation we have assumed that salary growth will be 2% 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 the table below.

	Salary growth		
	Valuation assumption	+0.5%	-0.5%
Surplus at 1 April 2014	£3.58 million	£3.20 million	£3.94 million
Contribution Rate to remove surplus over 15 years	(6.5%)	(5.6%)	(7.4%)
Assembly share of Standard Contribution rate (including expenses)	25.3%	26.4%	24.2%
Required Assembly contribution Rate	18.8%	20.8%	16.8%



- 9.4 **Longevity** – The assumptions made for longevity are described in paragraphs 6.5 – 6.11 of the report and further details can be found in Appendix E. The sensitivity of the valuation result to a change in the longevity assumptions of around one year is illustrated in the table below.

	Life expectancy		
	Valuation assumption	1 year more	1 year less
Surplus at 1 April 2014	£3.58 million	£3.12 million	£4.05 million
Contribution Rate to remove surplus over 15 years	(6.5%)	(5.7%)	(7.4%)
Assembly share of Standard Contribution rate (including expenses)	25.3%	25.9%	24.7%
Required Assembly contribution Rate	18.8%	20.2%	17.3%

- 9.5 **Election turnover** – The assumptions made for the turnover of members at Assembly Elections are described in paragraphs 6.13 to 6.19 of the report. The sensitivity of the result to the turnover assumption being 5% higher or lower is illustrated in the table below:

	Election turnover		
	Valuation assumption	+5%*	-5%**
Surplus at 1 April 2014	£3.58 million	£3.44 million	£3.73 million
Contribution Rate to remove surplus over 15 years	(6.5%)	(6.3%)	(6.8%)
Assembly share of Standard Contribution rate (including expenses)	25.3%	25.6%	25.0%
Required Assembly contribution Rate	18.8%	19.3%	18.2%

* rates increased from 25% and 80% to 30% and 85% respectively

** rates reduced from 25% and 80% to 20% and 75% respectively



10 Recommendation

- 10.1 Section S3(b) of the Rules requires that, at each actuarial valuation, the Actuary shall recommend the rate of contribution that should be paid by the Assembly in respect of any financial year beginning after this report is made. We have completed the actuarial valuation of the NAfW MPS as at 1 April 2014, using the methodology and actuarial basis described in this report, and the recommendation we are required to give under the Rules is set out in paragraph 10.2 below.
- 10.2 We recommend that the Assembly's contributions payable from 1 April 2015 should continue to be at the rate of **23.8% of pensionable pay** adjusted to take account of any changes in members' contributions and/or any benefits agreed and implemented before the next triennial valuation is due as at 1 April 2017.

Martin Clarke FIA
Government Actuary

26 March 2015

Ian Boonin FIA
Government Actuary's Department



Appendix A: Summary of the main provisions of the Scheme

- A.1 All serving Assembly Members may participate in the National Assembly for Wales Members' Pension Scheme. Ministers and certain other office holders may participate in a supplementary section of the Scheme and qualify for a supplementary pension on a similar basis to AMs, except that benefits accrue by reference to salary in each year of office holder membership, rather than by reference to final pay.
- A.2 Contributions are required at a rate of 10% of salary from scheme members. Pensions accrue at the rate of $1/40^{\text{th}}$ of final pensionable salary per year of reckonable service. Assembly contributions are paid at a rate recommended from time to time by the Actuary. Service while a member's salary is abated as an MP or MEP, is reduced pro-rata to the reduction in salary.
- A.3 Members may instead opt to pay contributions at a rate of 6% of salary and to accrue pension at the rate of $1/50^{\text{th}}$ of final pensionable salary per year of reckonable service. Serving members who have reached the limits for maximum benefit accrual in the Scheme do not pay contributions.
- A.4 Retirement pensions are payable from age 65 to those who are no longer AMs or office holders. Pensions may be paid before age 65 in the following circumstances:
- > For members who joined the Scheme before 6 April 2006, accrued pensions may be paid from age 60 where service (including non-concurrent service as an MP or MEP) 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 50 or over for members who joined the Scheme before 6 April 2006, and age 55 or over for those who joined the Scheme after that date.
- 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 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 include survivor pensions payable to qualifying unmarried partners, as well as to widows, widowers and civil partners, upon the death of a member.
- A.8 Pensions and deferred pensions are increased annually in line with CPI.



- A.9 The Scheme is contracted out of the earnings-related additional pension of the State Pension Scheme.



Appendix B: Membership at 1 April 2014

Table 1 - Sitting Members contributing to the Scheme

Numbers	
Number of contributing members at 1 April 2011	59
New Members	
Members elected 2011-2014	24
Leaving Members	
Members leaving the Assembly 2011-2014	23
Number of contributing Assembly Members at 1 April 2014	60
Service and pay at 1 April 2014	
Average pensionable service (years)	19.4
Average pay	£53,852
Average age	54.0



Table 2 – Beneficiaries of the Scheme

Preserved pensioners as at 1 April 2014	
Number of former members with preserved pensions	21
Average annual preserved pension including increases to 1 April 2014	£10,615
Average age	54.0
Pensioners and dependents as at 1 April 2014	
Numbers of beneficiaries in receipt of pensions	33
Average annual pension including increases to 1 April 2014	£11,270
Average age	68.4

Table 3 – Office holders

Contributors	
Number of Office holders contributing following the Election	34
Salaries on which contributions are based	£863,500



Appendix C: Consolidated revenue account for the period 1 April 2011 to 31 March 2014

Consolidated revenue account for the period 1 April 2011 to 31 March 2014

	£'000
Balance at 1 April 2011	<u>18,785</u>
Income over period from 1 April 2011 to 31 March 2014:	
Assembly regular contributions	2,878
Member regular contributions	1,188
Member purchase of added years	24
Transfers in	385
Total income (excluding interest)	4,475
Expenditure over period from 1 April 2008 to 31 March 2011:	
Retirement benefits	1,797
Death benefits	-
Professional fees and administration costs	200
Total expenditure	1,997
Interest on cash deposits and change in market value of investments over period from 1 April 2011 to 31 March 2014:	4,224
Balance at 31 March 2011	<u>25,488</u>



Appendix D: Analysis of the investments of the Scheme

Type of asset	Value at 31 March 2014 £ '000	Distribution of fund assets at 31 March 2014 (%)
UK equities	4,173	16.4%
Overseas equities		
North America	1,831	7.2%
Europe	1,808	7.1%
Asia Pacific	1,032	4.0%
Emerging Markets	916	3.6%
Total overseas equities	5,587	21.9%
Diversified growth pension fund	11,099	43.5%
Bonds	3,427	13.4%
Cash & deposits	744	2.9%
Current assets and liabilities	457	1.8%
Total assets of the Scheme	25,488	100.0%

Figures may not total exactly due to rounding



Appendix E: Assumptions

Demographic assumptions

Members	Mortality table
Males (retirements in normal health and dependants)	80% of SAPS (normal health males amounts) U=2014
Females (retirements in normal health and dependants)	85% of SAPS (normal health males amounts) U=2014
Male (ill-health pensioners)	80% of SAPS (ill-health males amounts) U=2014
Females (ill-health pensioners)	85% of SAPS (ill-health females amounts) U=2014

Note: The S1NFA-12 and S1NMA-12 mortality tables (for males and females respectively) 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 'S1NA-12 table is the published S1NA table with future improvements broadly in line with population improvements to 2012 and in line with the 2012-based principal population projections thereafter.

Assembly terms

Assembly Elections are assumed to take place every five years, with the next election taking place in May 2016.

Career patterns

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:

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



Members not entitled to protection who would be expected to have the majority of total service on the revised benefit structure:

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

Assumed age at leaving the Assembly

Age at valuation date	Average expected age of leaving the Assembly
40	54
50	61
60	67
70	73

State Pension Age

State Pension Age is assumed to be as adopted for valuations of other public service pension schemes in Great Britain as at 31 March 2012, as set out in The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 issued by HM Treasury.

Commutation

No allowance has been made for the possibility of members commuting part of their pension for a cash lump sum at retirement, 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

	1 April 2014	1 April 2011
Gross rate of return	5.8%	6.6%
Real rate of return, net of earnings increases	1.5%	1.25%
Real rate of return, net of price/pension increases	3.5%	3.5%