Government Actuary's Department

Members of the Senedd Pension Scheme (Senedd)

Report on the 31 March 2023 actuarial valuation

2 February 2024

Fiona Dunsire

Scheme Funding Report at 31 March 2023

To the Trustees of the Members of the Senedd Pension Scheme (the ‘Trustees’)

The Members of the Senedd Pension Scheme (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) and Schedule 11 of the Government of Wales Act 2006 provides continuity for the Scheme.

The Career Average Revalued Earnings (CARE) benefit structure was introduced under the CARE Pension Rules in May 2016, and the scheme is a “new public service pension scheme” under Section 30 of the Public Service Pensions Act 2013. The Scheme is not subject to the requirements of the Pensions Act 2004.

Rule 19.1 requires the Actuary to make a report on the general financial position of the Scheme at least every three years, including an actuarial valuation of the liabilities of the Scheme compared to its assets, and the determination of the rate of future contributions to be paid by the Senedd Commission under Rule 17 (expressed as a percentage of participating member salary payments).

This actuarial valuation report sets out my assessment of the general financial position of the Scheme as at 31 March 2023 (the ‘valuation date’). The previous report related to the position as at 31 March 2020.

Fiona Dunsire FIA

2 February 2024

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Appendices

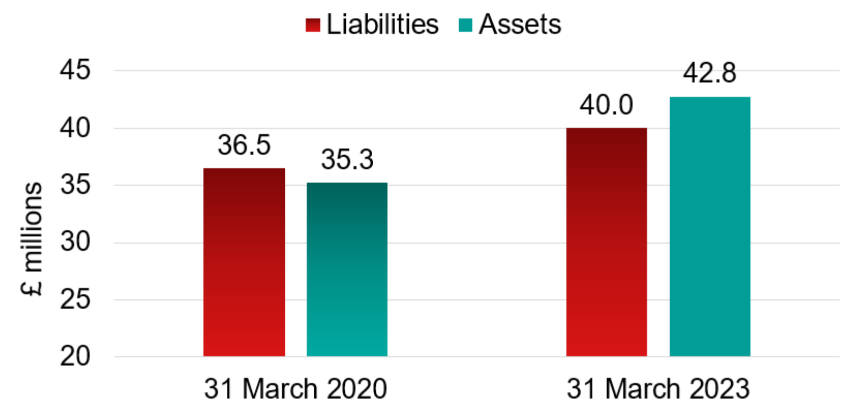
1. Summary of key results

1.1 This report sets out the results of the actuarial valuation for the Members of the Senedd Pension Scheme as at 31 March 2023. The key conclusions in relation to the past and future service assessments are set out below.

Past service assessment

1.2 The value of the liabilities accrued up to the valuation date is assessed as £40.0 million. The market value of the assets of the Scheme on the same date is £42.8 million, resulting in a surplus at 31 March 2023 of £2.8 million, as set out in chart 1.1 below.

Chart 1.1: Past service funding position



	31 March 2020	31 March 2023
Surplus (Deficit)	(£1.3m)	£2.8m
Funding Level	97%	107%

PAST SERVICE FUNDING IMPROVEMENT

Over the period since the previous valuation as at 31 March 2020 (the ‘2020 valuation’) the Scheme’s assets increased in value by more than expected.

Actual salary increases over the period were lower than assumed, generating a funding gain.

Expected future asset returns have increased since the 2020 valuation. This has resulted in a higher discount rate assumption, placing a lower value on the Scheme’s liabilities in 2023.

The above gains were somewhat offset by higher than expected pension increases over the period.

Overall, this has resulted in the funding level improving from 97% to 107%.

The Scheme’s liabilities are calculated based on the method and assumptions set out in appendix C and appendix D, they represent the value of the liabilities accrued up to the valuation date (including an allowance for future expenses). A summary of the membership data used to calculate the value of liabilities and the asset data used is set out in appendix A and appendix B.

Future service assessment

1.3 Based on the method and assumptions adopted for this valuation, the cost of benefits accruing in the Scheme for each year of membership to the next valuation is assessed as 25.4% of pensionable pay, including an allowance for scheme expenses of 1.0%. The Senedd's share of the cost is 14.9% of pay, as shown in table 1.1 below.

Table 1.1: Future service contribution rates

Contribution rate	31 March 2020	31 March 2023
Standard Contribution Rate (Including 1% for expenses)	28.5%	25.4%
Average member contribution rate	(10.5%)	(10.5%)
Senedd's share of the Standard Contribution Rate	18.0%	14.9%
Deficit contributions	1.8%	n/a
Agreed Senedd contribution rate	**19.9%**	**18.0%**

SENEDD CONTRIBUTION RATE AGREED AT 2020 VALUATION

The Senedd share of the standard contribution rate was assessed as 18.0% of pay at the 2020 valuation. This was increased to 19.9% broadly reflecting the funding deficit and the rate of contributions at the time.

The additional contributions were intended to repair the deficit in the Scheme over a period of 15 years.

1.4 As discussed above, for the valuation as at 31 March 2023 (the '2023 valuation') the discount rate is higher, which has led to a reduction in the cost of benefits accruing in the Scheme compared to that calculated in 2020.

1.5 Changes in the membership age profile have reduced the overall cost of accrual in the scheme. This is due to membership changes from the 2021 Parliament elections and the benefit accrual costs being lower for younger members.

1.6 Since the valuation date financial markets continue to be volatile, with significantly high inflation levels. There is uncertainty around how long these levels of high inflation may persist which could have a continuing material impact on the Scheme's funding level.

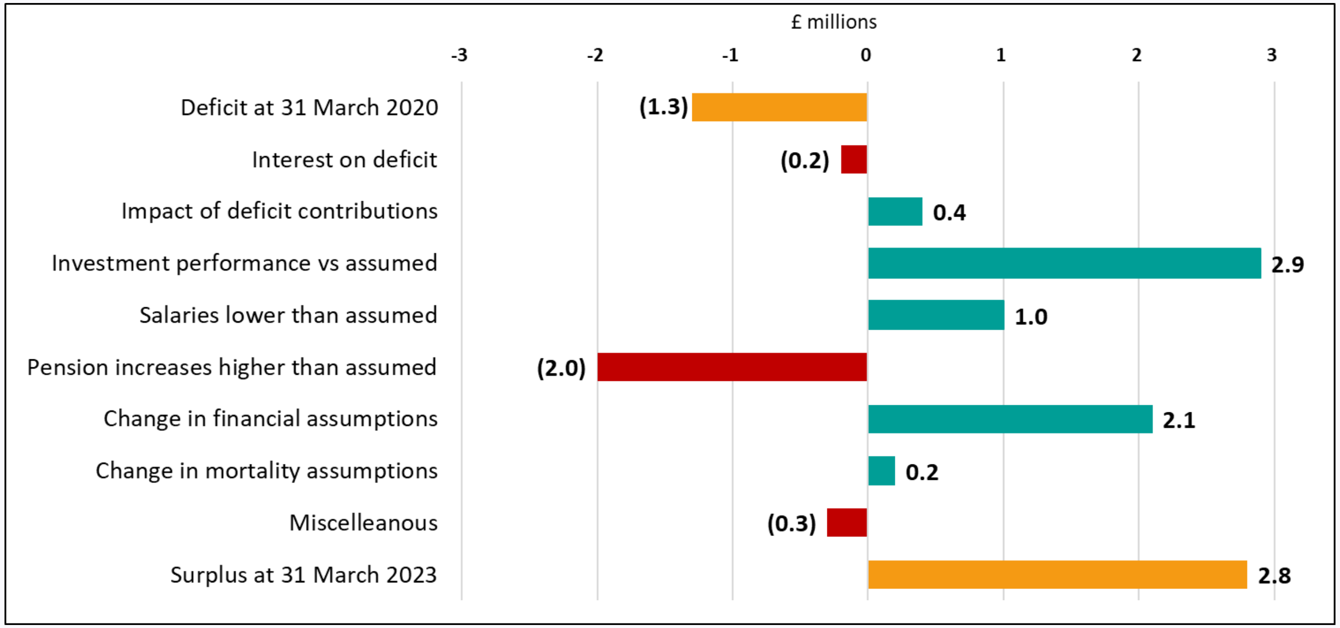
1.7 Under Rule 20.1(b), the Actuary is required to determine the rate of Senedd contributions to the Fund. In reaching my recommendation I have considered the valuation results above and the wider considerations, as set out in section 5 of this report. My conclusion is that the Senedd Commission contribution rate should be set at 18.0% of pay per annum.

2. Changes in the funding position since the previous valuation

2.1 The 2020 valuation disclosed a deficit in respect of past service liabilities of £1.3 million, equivalent to a funding level of 97%.

2.2 Chart 2.1 shows the principal reasons for the improvement in the funding position from a deficit of £1.3 million at 31 March 2020 to a surplus of £2.8 million at 31 March 2023.

Chart 2.1: Change in valuation surplus between 31 March 2020 and 31 March 2023



Scheme Assets Investment Performance

The actual rate of investment return of around 7.0% a year over the three-year period was higher than expected, with the additional outperformance reducing the deficit by £2.9m.

Pension increase experience

The actual pension increases awarded over the three-year period (including the 1 April 2023 increase/ revaluation) were higher than assumed for the 2020 valuation, due to higher levels of CPI inflation, increasing the deficit by £2.0m.

Updates to financial assumptions

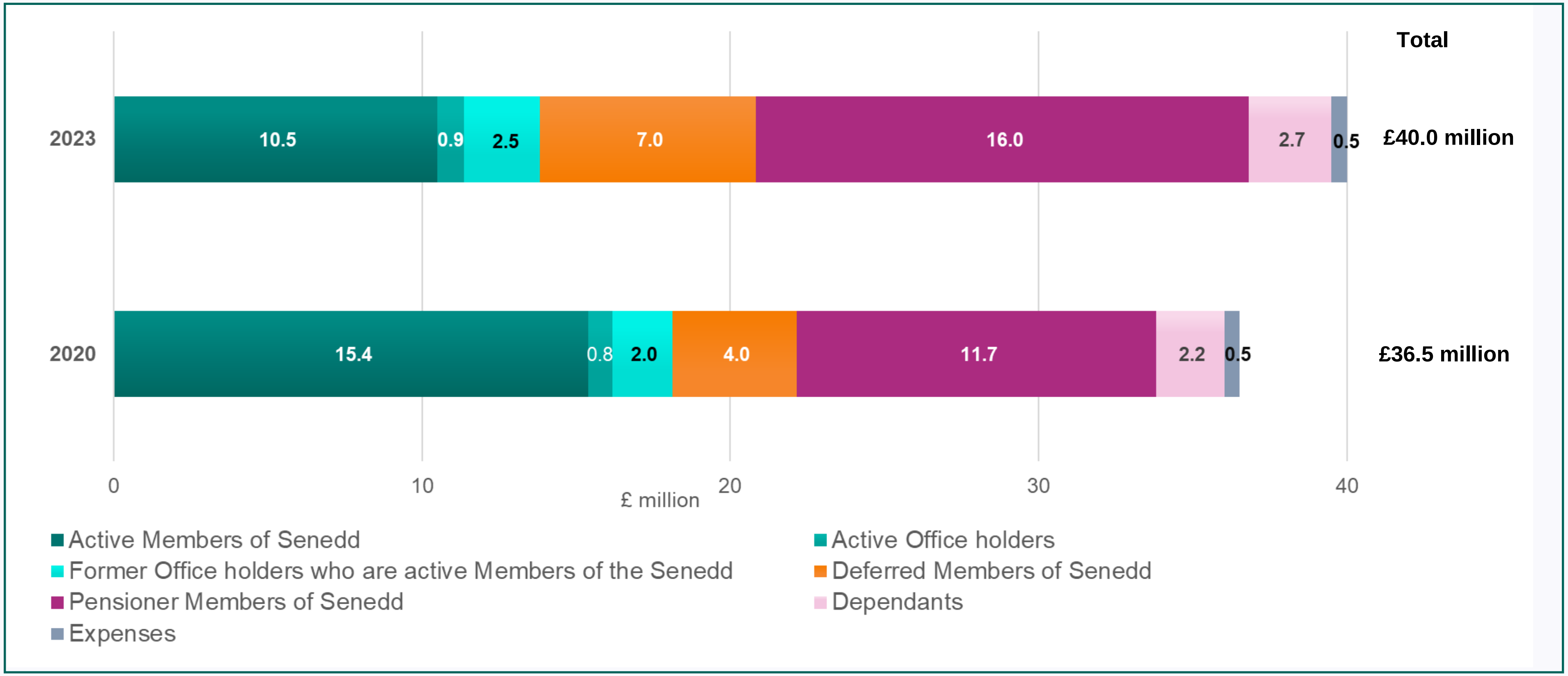
Although the long-term inflation expectations are higher in 2023 than at the 2020 valuation, the net expectation for asset returns above inflation (discount rate) has increased. This has improved the funding level by £2.1m.

Other

Lower than expected salary increases since 2020, deficit contributions and reduced life expectancies have also contributed to improving the funding position of the Scheme (gains of £1.0m, £0.4m and £0.2m respectively).

2.3 Chart 2.2 shows the breakdown of past service liabilities between current members, former members with deferred benefits and pensioners in payment at 31 March 2023, alongside the position as at the 2020 valuation for comparison.

Chart 2.2: Past service assessment breakdown as at 31 March 2020 and 31 March 2023



2.4 The Scheme's liability profile continues to mature. At the 2023 valuation, the liabilities in respect of accrued benefits of current Members of the Senedd and office holders is 29% of the total liability, with the remaining 71% in respect of former Members of the Senedd and office holders (47% pensioners and 24% deferred benefits). This compares to 45% in respect of current Members of the Senedd and office holders at the 2020 valuation and 55% in respect of former Members of Senedd and office holders (38% pensioners and 17% deferred benefits). Maintaining a stable contribution rate could become more challenging as the accrued liabilities increase over time relative to the active member pensionable payroll, with any emerging deficits spread over a comparatively smaller pensionable payroll.

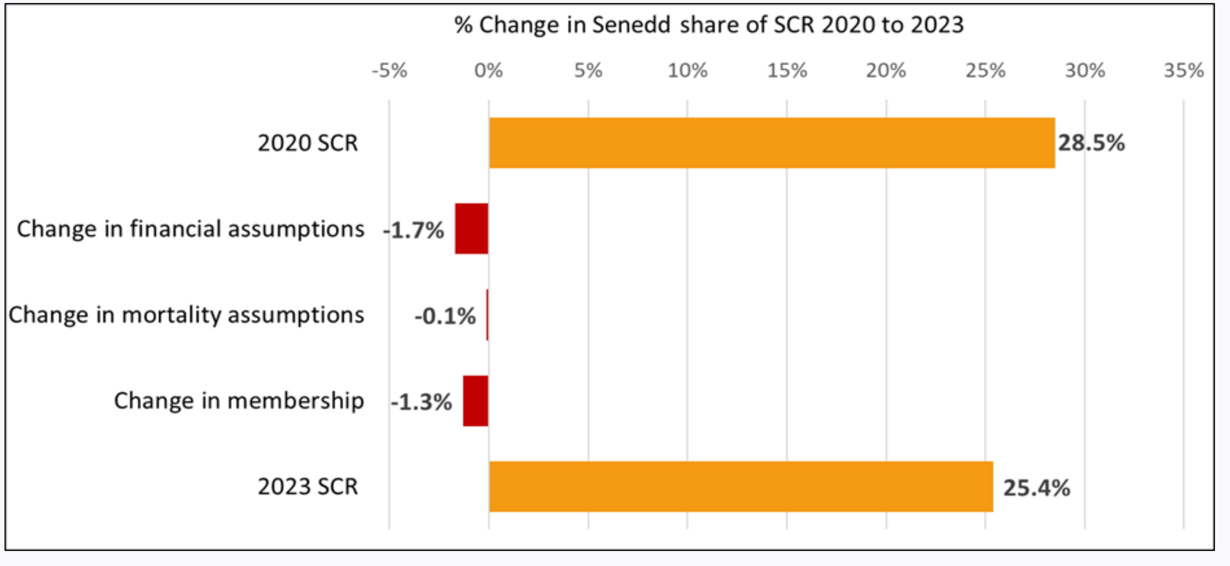
3. Changes to the Standard Contribution Rate since the previous valuation

3.1 The cost of benefits accruing for future service is assessed by means of the Standard Contribution Rate (SCR), as described at paragraph C.10 of this report. The SCR (including an allowance of 1% for expenses) has reduced from 28.5% to 25.4% between the 2020 and 2023 valuation.

3.2 The Senedd's share of the SCR is the balance of costs that would be met by the Senedd in the absence of any surplus or deficiency, after allowing for expected member contributions. At the 2023 valuation this is assessed as 14.9% of pensionable pay (being 25.4% less 10.5% in respect of expected member contributions, see paragraph 3.4).

3.3 Chart 3.1 summarises the main factors that account for the change to the Senedd's share of the SCR between the 2020 and 2023 valuation.

Chart 3.1: Change to Standard Contribution Rate between 31 March 2020 and 31 March 2023



Change in financial assumptions

The expectation for future real asset returns for the Scheme has increased, reducing the SCR by 1.7%.

Change in demographic assumptions

Updates to the mortality projection assumptions have reduced the SCR by 0.1%.

Change in membership

The age profile of the active membership has reduced since the 2021 election. This has resulted in a reduction in the cost of benefit accrual which is lower at younger ages.

3.4 Members' contributions are expected to average 10.5% of the Scheme's pensionable payroll for the duration of the current Parliament. The expected average member contribution rate has remained unchanged between the 2020 and 2023 valuations.

3.5 The SCR is sensitive to changes made to the assumptions, and to changes in the active membership. If the average age of the membership rises over time, the SCR could be expected to increase (all else being equal). If the average age of the active membership falls, then the SCR could be expected to fall. This might happen, for example, following an election if a number of older members retiring were to be replaced by younger members.

3.6 To remove the impact of the membership ageing during the parliamentary term, the SCR for the 2023 valuation has been assessed assuming members are the age they will be at around the mid-point between the 2023 valuation and the next expected parliamentary election in 2026. This is a similar approach to that adopted for the 2020 valuation. Allowing for ageing in the calculation of the SCR for the 2023 valuation, increases the SCR by around 1% of pensionable pay.

4. Setting the contribution rate

4.1 When setting the Commission contribution rate, consideration should also be given to the scheme objectives and previous targets and agreements. I have considered some of the key aspects below.

- **Cost Stability**: The scheme has an objective of having stable contributions over time, with accruing benefits paid for during members' participation. The stability objective may suggest a higher threshold for changing contributions.
- **Cost management**: An independent review of the arrangements for the financial support of Assembly Members was carried out in 2009. The panel recommended that the Senedd Commission contribution rate should be no higher than 23.8% pa.
- **Cost allocation**: The Remuneration Board has agreed that the Senedd Commission and Member contribution rate should, as far as possible, follow the principle of 60:40 contribution split (Memorandum of Understanding).

4.2 The following options were considered as part of agreeing the final contribution rate for the Senedd Commission:

	Option 1: Maintain current total Senedd rate **19.9% of pay per annum**	**Option 2: Maintain current Senedd rate but stop deficit contributions** **18.0% of pay per annum**	**Option 3: Set the Senedd rate based on current market conditions** **14.9% of pay per annum**
Cost Stability	The Senedd contribution rate has been 19.9% since the 2017 valuation	Maintains current ongoing cost but recognises emerging surplus in 2023	Significant reduction, although this may need to be significantly reversed in future in event of adverse experience
Cost management	Higher end option in terms of cost, but lower than the Independent Panel recommended maximum	Rate is lower than the Independent Panel recommended maximum and the current rate being paid	Lower contributions for next three years but less buffer against market volatility (as per scenarios above)
Allocation (as far as possible 60:40)	Cost allocation is c65% sponsor, 35% member partly due to additional deficit payments	Cost allocation is c63% sponsor, 37% member, providing a slightly better balance	Cost allocation is c59% sponsor, 41% member, providing a slightly better balance
Comment on option	Doesn't reflect that scheme no longer in deficit.	Recognises no need for deficit payments. More likely to provide a buffer against market volatility and achieve longer-term cost stability than option 3.	Less buffer against market volatility, or future changes in market conditions or the Scheme investment strategy.

4.3 Whilst the continued Scheme surplus provides some buffer, there remains a great deal of uncertainty in investment markets around how long the current levels of high inflation could persist (with their associated implications for Scheme costs).

4.4 In reaching a conclusion about the Senedd Commission contribution rate I have considered the results of the 2023 valuation along with the current market volatility and the Scheme's goal of maintaining longer-term cost stability.

4.5 Taking into account all of the points mentioned above, my recommendation is that the Senedd Commission contribution rate should reduce to 18.0% of payroll per annum, reflecting that the Scheme no longer has a deficit at the 2023 valuation, but maintaining some buffer against market volatility.

4.6 After consulting with the Trustees, the Remuneration Board and the Commission it has been agreed that the Senedd Commission contribution rate will be 18.0% of payroll per annum from 1 April 2024.

5. Sensitivity of valuation results & future projections

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 Senedd contributions are set out in appendix D. The approach adopted to deriving the financial and demographic assumptions has been to determine assumptions which are broadly best estimate.

5.2 The results of this review are sensitive to the choice of assumption made. Changing the key valuation assumptions has an impact on the disclosed surplus and on the Standard Contribution Rate as shown in table 5.1 below.

5.3 If more than one assumption is varied the combined effect may be different than the sum of the impact of the individual assumptions.

Table 5.1: Sensitivity to main valuation assumptions

Assumption	Adjustment made	Impact on Surplus	Impact on Senedd Contribution Rate[1] (percentage of pay)
Discount rate (net of CPI)	+0.50%pa	+£2.9m	-2.4%
	-0.50%pa	-£3.2m	+3.4%
Earnings increases	+0.5%pa	-£0.2m	NA
	-0.5%pa	+£0.2m	NA
Mortality scaling factor[2]	+2.5%	+£0.2m	+0.1%
	-2.5%	-£0.2m	-0.1%

1. Impact on SCR is additive (i.e. -1.0% means SCR is 1.0% of pay lower than original figure, e.g. 13.9% rather than 14.9%). Sensitivities include an allowance for membership ageing during the parliamentary term, as noted in paragraph 3.6.

2. This is the adjustment applied to the base mortality table (i.e. adjustment of -2.5% means a scaling of 82.5% applied to the mortality base table, rather than 85%).

Projected funding level at 31 March 2026

5.4 We have considered how the valuation results may look as at 31 March 2026, the date of the next actuarial valuation, on the following scenarios, with the results set out in Table 5.2.

Base scenario: All assumptions are unchanged from those adopted for the 2023 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 2026 valuation is 0.50% lower than as at the 2023 valuation.

Scenario 2: In line with the base scenario but assuming an investment return of -10% on the Scheme's assets between 1 April 2023 to 31 March 2026 (long-term asset return and discount rate unchanged).

Table 5.2: Sensitivities to projected funding level as at 31 March 2026

Scenario	Projected Liabilities	Projected Assets	Projected surplus/(deficit)	Senedd contribution rate*	Comment on cost at 2026
Base Scenario	£47m	£51m	£4m	15%	Unchanged assuming membership profile and assumptions are same
Scenario 1	£51m	£51m	£0m	18%	Cost increase by 3% of salaries
Scenario 2	£47m	£39m	(£8m)	27%	Costs increase by 12% due to paying off the deficit

* Any deficit as at the 31 March 2026 valuation is assumed to be amortised over a period of 15 years.
Note: The assumed Standard contribution rate through the projection period is 25.4% pa (including the 1% expense rate) and assuming Senedd contributions of 18% pa from 1 April 2024.

5.5 See paragraph C.22 for further details of the method and assumptions used in calculating the figures above.

6. Conclusions and next steps

6.1 Rule 20.1(b) requires that, at each actuarial valuation, the Actuary shall determine the rate of contribution that should be paid by the Senedd Commission. I have completed the actuarial valuation of the Scheme as at 31 March 2023, using the methodology and actuarial basis described in this report.

6.2 My determination is that the Senedd Commission contribution rate should be 18.0% of pensionable payroll from 1 April 2024.

6.3 A copy of this report shall be laid before the Welsh Parliament by the Trustees within three months of receiving it.

6.4 The next actuarial valuation of the Scheme will be carried out no later than 31 March 2026.

Fiona Dunsire

Government Actuary

Fellow of the Institute and Faculty of Actuaries

2 February 2024

Appendix A: Membership data

A.1 The data for the actuarial valuation was provided by the secretariat to the Trustees of the Scheme. 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.

A.2 The membership data I have taken into account in the valuation is summarised below.

Table A.1: Membership data at 31 March 2023

Category	Number of members[1]	Average age[2]	Total pension (pa)[3]	Total salary (pa)
Active Senedd Members	58	51.6	£818,000	£4.1 m
Active officeholders	35	56.5	£74,000	£0.9 m
Deferred office holdings for active Senedd members	60		£85,000	
Deferreds	27	55.9	£570,000	
Pensioners and dependants	76	71.5	£1,178,000	

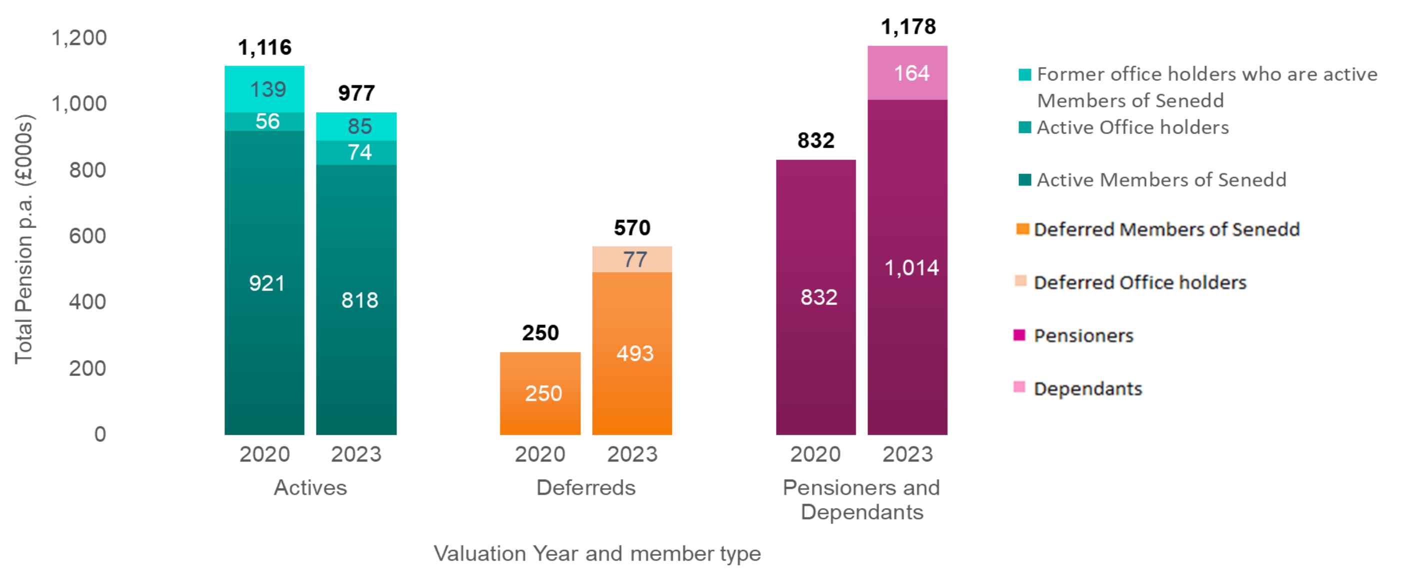
Table A.2: Membership data at 31 March 2020

Category	Number of members[1]	Average age[2]	Total pension (pa)	Total salary (pa)
Active Senedd Members	59	54.7	£921,000	£4.0 m
Active officeholders	40	55.6	£56,000	£0.9 m
Deferred office holdings for active Senedd members	75		£139,000	
Deferreds	20	55.5	£250,000	
Pensioners and dependants	64	69.6	£832,000	

1.Some members appear in more than one category.
2.Unweighted average age.
3.Pension amounts include April 2023 increase and approximate uplifts for the McCloud remedy judgment.

A.3 The change in the membership data used for the 2023 valuation compared to the data used for the 2020 valuation is illustrated in chart A.3 below.

Chart A.3: Change in accrued pension amounts between 31 March 2020 and 31 March 2023



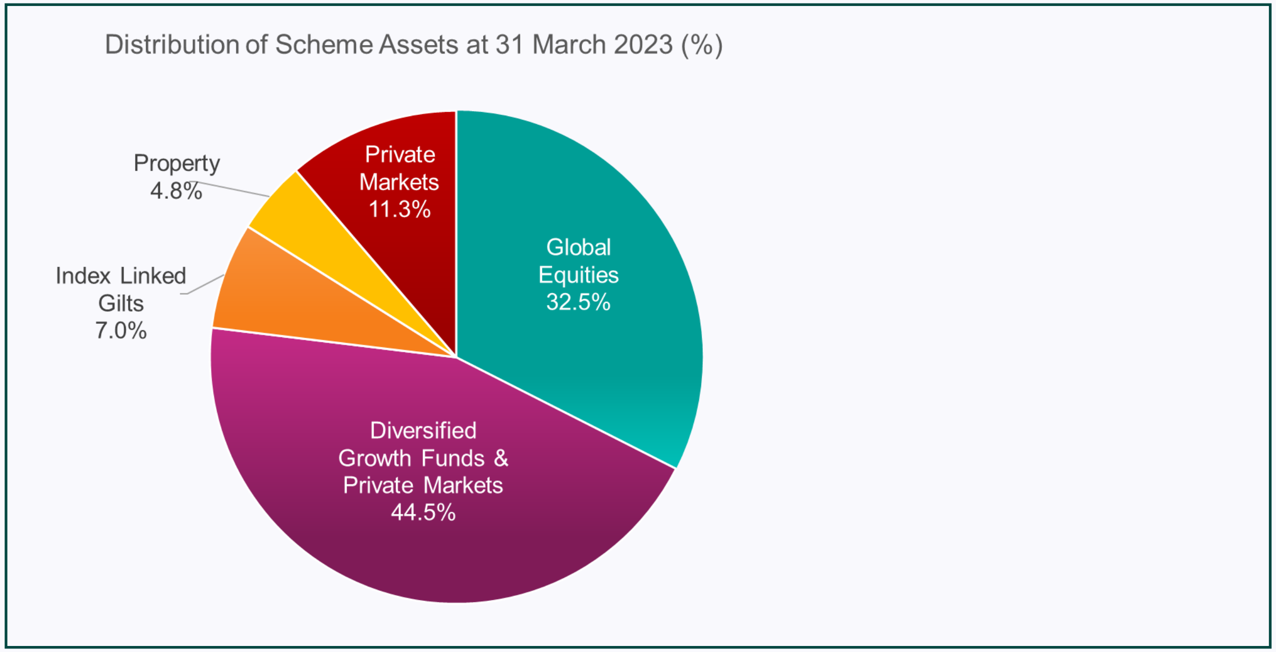
- The pension figures as at 31 March 2023 include the pension increase as at 1 April 2023 and the approximate uplifts for the McCloud remedy judgment, whereas the pension figures as at 31 March 2020 do not include an allowance for McCloud.
- The 2020 Deferred pensioner amounts include both Members of Senedd and office holders as the split was not available in the 2020 data set.
- The 2020 data set also did not split out the pension benefits between pensioners and dependants so these are aggregated.

Appendix B: Assets and financial data

B.1 The value to be placed on the investments of the Scheme for the purpose of the 2023 valuation is the market value of the assets as at 31 March 2023, which is £42.8 million.

B.2 Chart B.1 provides a summary of the underlying investment classes held by the Scheme at 31 March 2023. This shows a majority of the investments in return seeking assets, including equities, multi asset growth funds and property).

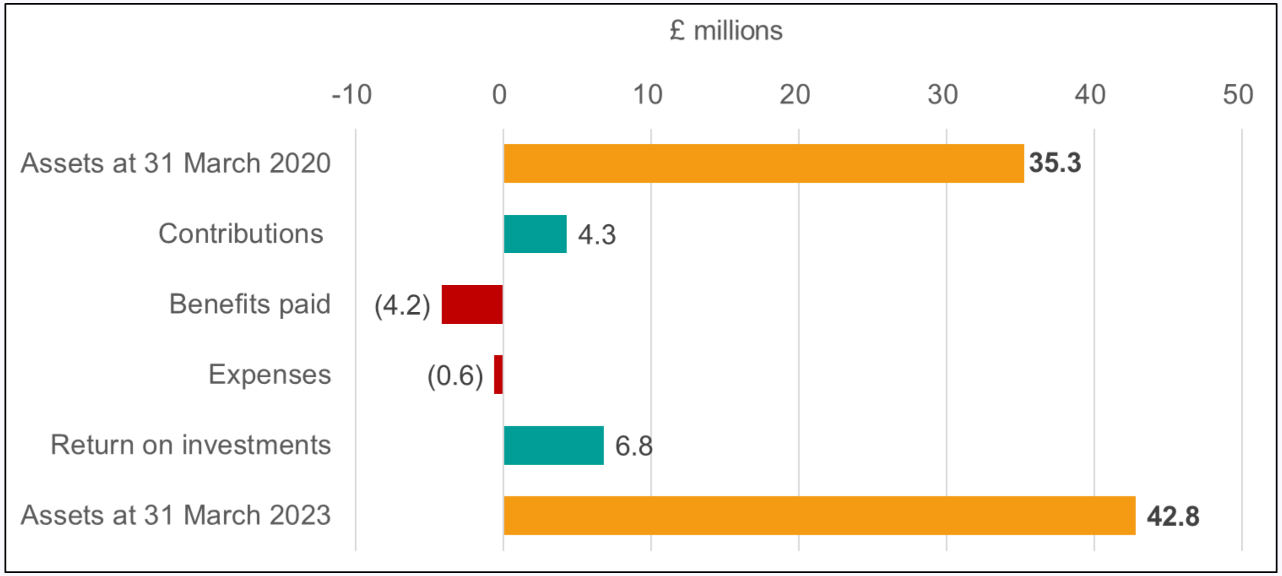
Chart B.1: Breakdown of assets by market value at 31 March 2023



B.3 At the valuation date, c30% of the total fund was invested in the BNY Mellon Sustainable Real Return fund, c33% was invested in the LGIM Ethical Global Equity Index funds, c15% was invested in the Baillie Gifford Sustainable Multi Asset Growth Fund, c11% was invested in the Partners Group Generations Fund, c7% was invested in short-term index-linked gilts, and c5% was invested in the LGIM Managed property fund. The multi-asset growth fund and Sustainable Real return funds invest in a wide variety of assets.

B.4 On the basis of the market value of the investments, the Scheme's assets increased over the period by £7.5 million, from £35.3 million to £42.8 million. As taken from the published accounts, figure B.2 below shows a breakdown of the increase:

Chart B.2: Increase in assets 2020-2023



B.5 The investment return achieved on the Scheme's assets over the three years since the last valuation was an average of about 7% a year. Market volatility over the period since the last valuation due to factors such as COVID-19 and the war in Ukraine can be seen in the annual returns in each year since the last valuation as shown in table B.3 below.

Table B.3: Investment returns achieved 2020-2023

Period	1 April 2020 to 31 March 2021	1 April 2021 to 31 March 2022	1 April 2022 to 31 March 2023
Investment return	23.6%	7.5%	-7.8%

Appendix C: Funding objective and valuation method

Governing legislation

C.1 The Scheme is the pension scheme for Members of the Senedd, Welsh Government ministers and other Senedd 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) and Schedule 11 of the Government of Wales Act 2006 provides continuity for the Scheme.

C.2 The Career Average Revalued Earnings (CARE) benefit structure was introduced, under the CARE Pension Rules in May 2016. The scheme is a “new public service pension scheme” under Section 30 of the Public Service Pensions Act 2013. The Scheme is not subject to the requirements of the Pensions Act 2004.

Benefit provisions

C.3 The Senedd Pension Scheme Arrangement of Rules 2016 (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. Summaries of the benefit provisions of the Scheme at the valuation date are given in Appendix E. If there are any inconsistencies between the Appendix and the Rules, it is the Rules that will prevail.

Requirement for a valuation

C.4 Rule 19.1 requires the Actuary to make a report on the general financial position of the Scheme at least every three years. The previous report related to the position as at 31 March 2020 and this report relates to my assessment as at 31 March 2023. This report gives an assessment of the financial position of the Scheme as at this date, together with my determination of the contributions to be paid by the Senedd Commission to the Scheme following the valuation.

Funding objective

C.5 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.

C.6 Another important aim as advised is to ensure that accruing benefits are paid for during members' participation in the Senedd Pension Scheme and that the charges borne by the Senedd 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

C.7 This valuation has been carried out using the same valuation method as the 2020 valuation. 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, or CARE revaluations to retirement.

Actuarial liability

C.8 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 the Senedd 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 Senedd Pension Scheme 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. These are projected to retirement or earlier exit based on earnings 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.

C.9 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.

Standard contribution rate

C.10 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.

C.11 This rate is sensitive to changes made to the assumptions, and to changes in the active membership. As noted in paragraphs 3.5 and 3.6, if the average age of the active membership rises over time, the Standard Contribution Rate could be expected to increase slightly (all else being equal).

C.12 To remove the impact of the membership ageing during the parliamentary term, the SCR for the 2023 valuation has been assessed assuming members are the age they will be at around the mid-point between the 2023 valuation and next expected parliamentary election in 2026. This is a different approach to that adopted for the 2020 valuation, where the SCR was based on the average age of the membership at the valuation date with no allowance for any ageing. This was due to the expectation that the change in active membership arising from the 2021 election would have a greater impact on the SCR than any allowance for ageing, deeming it unnecessary. Allowing for ageing in the calculation of the SCR for the 2023 valuation, increases the SCR by around 1% of pensionable pay.

Recommended contribution rate

C.13 The recommended contribution rate is obtained by considering the Standard Contribution Rate, adjustments in respect of any deficit (or surplus) between the value of the assets and the value of the Actuarial Liability and consideration of the wider objectives and issues facing the Scheme. The period over which the contribution rate should be adjusted would depend on a number of factors including the extent of the deficit (or surplus).

Office holders

C.14 Office holders pay supplementary contributions on their pensionable salary as an office holder. In most cases, Members of the Senedd will be office holders for only part of their service as a Senedd Member. 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 accrued as an office holder come into payment, they are aggregated with pensions accrued as a Senedd Member (where applicable), and so are not shown separately in the valuation results.

McCloud judgment

C.15 As with the 2020 valuation, we have included an allowance for the expected cost of the McCloud remedy within the actuarial liability as at 31 March 2023. The cost of the McCloud remedy depends on a number of factors, including but not limited to:

- The remedy assumed 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

C.16 For the purpose of the valuation, we have assumed that the Remuneration Board implement the McCloud remedy by restoring all relevant active members to the final salary section with 40ths accrual (with exception of any members who previously opted for lower accrual in the final salary section with lower contribution payments). In practice, it is expected that members will be offered a choice between final salary and CARE benefits for the remedy period. Member choices are expected to be reflected in the results of the next actuarial valuation of the Scheme.

C.17 The expected cost of the McCloud judgment on the Scheme's liabilities at the valuation date is an estimate which has been produced in line with the actuarial assumptions set out in Appendix D.

C.18 Under the valuation assumptions, final salary benefits will be more valuable than CARE benefits for all members. Therefore, the cost of the McCloud remedy has been calculated to be the difference between the value of the members' benefits assuming that all relevant members had remained in the final salary section of the scheme over the period from 6 May 2016 to 5 May 2021 compared with the value of the benefits actually accrued over that period.

C.19 The expected uplifts to members' pensions has been applied to members' pensions as at 31 March 2023, and so is included in the actuarial liability at 31 March 2023.

C.20 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 31 March 2023, depending on the Remedy implemented and actual member decisions. Any difference between the final remedy and the methodology assumed above, will emerge as a source of surplus or deficit at the 2026 valuation.

Going concern

C.21 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 Regulations contain no provisions to determine the wind up or discontinuance of the Scheme.

Projected funding level as at 31 March 2026

C.22 When estimating the projected funding level of the Scheme as at 31 March 2026 set out in table 4.2, we have rolled forward the results as at 31 March 2023 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 2022 to 31 March 2023, with allowance for increases in line with the assumptions adopted for the 2023 valuation.
- the pensionable payroll profile remains stable over the period with allowance for assumed increases of 3% pa to pensionable pay.
- Senedd contributions are assumed to be 19.90% for the year to 31 March 2024, and 18% for the following 2 years.
- assets are based on those as at 31 March 2023, increased in line with the investment return assumed for the 2023 valuation and assumed payments described above.
- no allowance has been made for known investment returns or updated market conditions since the valuation date.

Appendix D: Actuarial assumptions

D.1 The principal financial and demographic assumptions used to place a present value on the Scheme's liabilities and to assess the level of Senedd contributions are set out below.

D.2 Assumptions are broadly set at best estimate, including the discount rate which is based on the GAD best estimate return on the scheme assets, although this is lower than the investment advisor (Quantum Advisory) best estimate.

D.3 The Scheme is too small for its own experience to be statistically significant enough to derive the demographic assumptions, and so we have also had regard to experience and trends in other larger public service pension schemes.

D.4 The assumptions have been set on the recommendations of the Scheme actuary as agreed by the Trustees.

Summary of financial assumptions

D.5 Table D.1 below shows the main financial and expense assumptions adopted for the valuation at 31 March 2023 and, for comparison purposes, at 31 March 2020.

Table D.1: Summary of main financial and expense assumptions

Assumption	2020 valuation % pa	2023 valuation % pa
Gross rate of return on assets (or discount rate)[1]	4.55	5.45
CPI inflation / Pension increases	2.00	2.40[3]
Earnings increases up to 2026	3.75	3.00
Earnings increases after 2026	3.75	3.95
Real asset returns above CPI inflation[2]	2.50	3.00
Real earnings increases above CPI inflation	1.75	1.50
Past service expense reserve	£0.5m	£0.5m
Expense addition to contribution rate	1.0%	1.0%

[1] The discount rate reflects the expected CPI inflation and the real returns above CPI inflation
[2] Real asset returns above CPI inflation are rounded to the nearest 0.25%
[3] CPI inflation for the first year from the valuation date has been adjusted for known actual inflation up to June 2023. This means the first year inflationary increases are assumed to be 6.9% followed by inflation of 2.4% pa thereafter.

D.6 The financial assumptions (summarised above) have been set using the same approach as the 2020 valuation, updated for market expectations as at 31 March 2023.

Discount rate

D.7 The discount rate is the interest rate that is used to place a current value on future cashflows into and out of the Scheme. The discount rate is based on the assumed returns expected from the Scheme's investments.

D.8 Table D.2 shows GAD's view of the best estimate of returns on the different asset classes invested in by the Scheme at both 31 March 2020 and 31 March 2023, along with the expected whole portfolio return based on the strategic asset allocation of the Scheme's invested assets.

Table D.2 Expected return on assets in excess of CPI at 31 March 2020 and 31 March 2023

Asset class	Allocation based on strategy at 31 March 2023	Expected returns (above CPI) at 31 March 2020	Expected returns (above CPI) at 31 March 2023
Equities	25%	3.50% pa	3.60% pa
DGFs	50%	2.00% pa	3.10% pa
Bonds (Index-linked government bonds)	10%	-1.55% pa	0.90% pa
Private markets	10%	3.50% pa	3.60% pa
Property	5%	2.50% pa	2.60% pa
Whole Portfolio return	**100%**	**2.20%[1] pa**	**3.00% pa[2]**

[1] Based on allocation of assets as at 31 March 2020

[2] GAD best estimate with no additional expected allowance for investment advisor views or diversification premiums

D.9 GAD's expected return on scheme assets at the time of the 31 March 2020 valuation was 2.2% pa above CPI inflation and the investment advisor expected return was 2.7% pa above CPI. The discount rate adopted for the 2020 valuation was 2.50% in excess of CPI.

D.10 GAD's long term expected annual return from equities has increased slightly between the 2020 and 2023 valuations, this is based on the change in economic outlook and equity markets over the period.

D.11 Returns on alternative growth assets, such as the Diversified Growth Fund (DGF), greatly depend on the investment manager and the specifics of the fund itself. However, our expected return on the DGF is lower than that expected for equities, as the DGF comprises a range of asset classes which are not all expected to produce returns as high as that for equities.

D.12 Considering the Scheme's investment strategy and the return expected on the assets held at the valuation date as set out above, our view is that the expected return on the Scheme's investments as at 31 March 2023 of around 3.0% above CPI inflation (rounded to the nearest 0.25%) is therefore an appropriate best estimate assumption for the Scheme.

D.13 The nominal discount rate assumption has increased from 4.55% pa to 5.45% pa. This reflects the increase in expected returns for most asset classes based on the updated GAD investment analysis as at 31 March 2023.

D.14 The final salary benefits of the Scheme are increased in line with earnings growth (whilst members are accruing benefits) and all other benefits increase in line with CPI inflation, so the 'real' discount rate (i.e. asset returns net of CPI) has a significant impact on results. The real discount rate has increased from 2.50% pa to 3.00% pa.

Price inflation/Pension increases

D.15 In previous valuations, CPI has been estimated by deriving a market-based assumption for Retail Price Index (RPI) inflation and allowing for the expected gap between RPI and CPI.

D.16 In November 2020, the government announced that RPI will be aligned to CPIH with effect from 2030. As a result, the above approach is no longer suitable, and assumptions derived this way would need to be considered separately before and after 2030.

D.17 GAD's current view is that the while the above approach may be appropriate to provide a broad indication of short-term inflation and the general movement of inflation expectations, the market is not efficient and there are challenges in deriving inflation assumptions directly from the market.

D.18 GAD's current view is therefore that it is more appropriate to derive a CPI assumption on a range of sources including: the Bank of England long-term target, breakeven inflation, OBR and BoE forecasts, and assumptions from other investment providers.

D.19 GAD's long-term view of CPI inflation relevant to the term of the liabilities of the Scheme as at 31 March 2023 is 2.4% pa based on the above. This has increased from 2.0% pa used for the 2020 valuation.

D.20 Increases in pensions in payment and during the deferred period are generally in line with increases to CPI. Hence, this assumption is taken to be 2.4% pa.

Pay increases

D.21 The final salary benefits accrued up to 5 May 2021 (the McCloud remedy end date) are linked to increases in members' pay, and it is therefore necessary to consider what increases in future pay levels might reasonably be anticipated. The short-term salary increase assumption has been reduced from 3.75% pa to 3.00% pa in line with current expectations for member salary increases up to the next election in 2026. The long-term salary increase assumption has reduced slightly from 1.75% pa above CPI to 1.50% pa above CPI, in line with GAD's long-term view of earnings.

Expenses

D.22 For the 2020 valuation, the Standard Contribution Rate included an allowance for future service expenses of around 1.0% of pensionable pay, and a reserve of £0.5m was also included for expenses.

D.23 The expense reserve of £0.5m was set aside at a previous valuation to cover any exceptional items of expense. As there is a surplus in the Scheme, we have continued to adopt a £0.5m expense reserve.

D.24 Administration expenses incurred by the Scheme during the three-year inter-valuation period were £575,000, excluding investment management costs.

D.25 For the 2023 valuation I have therefore retained the expense allowance of £0.5m (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.

Summary of demographic assumptions

D.26 The mortality assumptions adopted for the 2023 valuation are summarised in table D.3, along with commentary on any changes to the assumptions since the 2020 valuation.

Table D.3: Summary of demographic assumptions

Assumption	2020 valuation	2023 valuation	Commentary
Mortality table Male Female Dependants	 85% S3NMA 85% S3NFA (Middle) 85% S3NMA / 100% S3NFA (Middle)	 85% S3NMA 85% S3NFA (Middle) 85% S3NMA / 100% S3NFA (Middle)	2023 assumptions are in line with 2020.
Future mortality improvements	ONS 2018	ONS 2020	Updated for the latest available ONS population projections of the UK.
Career pattern	Next election 2021 and every 5 years thereafter Proportion of members assumed to leave Parliament at next/subsequent elections based on age: ▪ **Under age 63/ More than 2 years below state pension age (SPA)**: 25% ▪ **Age 63 to 75/ SPA-2 to 75**: 80% ▪ **Age 75**: 100%	Next election 2026 and every 5 years thereafter Proportion of members assumed to leave Parliament at each election based on age at election date: ▪ **More than 2 years below state pension age (SPA)**: 25% ▪ **SPA-2 to 75**: 80% **Age 75**: 100%	In line with the expected date of the next Senedd Parliament election. Legislation currently provides that the Senedd will continue with five year terms after that.
Cash commutation	No allowance	No change	The Scheme's commutation factors are assumed to be cost-neutral on the valuation basis.

Assumption	2020 valuation	2023 valuation	Commentary
Proportion married/partnered	100% up to age 60, then reduced broadly in line with mortality of spouse/partner.	No change	No additional evidence for a change of approach
Age difference between member and partner	Male members are assumed to be 3 years older than their spouse/partner. Female members are assumed to be 3 years younger than their spouse/partner.	No change	No additional evidence for a change of approach

Mortality

D.27 The key demographic assumption is pensioner mortality, that is, how long members are expected to survive and receive a pension.

D.28 The Scheme is small and there is insufficient scheme experience from which to set the mortality assumptions. The baseline mortality assumptions adopted for the 2023 valuation are in line with the mortality table assumptions adopted in 2020. The longevity assumptions in 2020 reflected (then) current expectations of rates of future mortality improvement, in line with the principal projection in the Office for National Statistics ('ONS') 2018-based UK population projections.

D.29 The ONS have published their 2020-based population projections mortality improvements for the UK. I have assumed future mortality improvement in accordance with the assumptions made for the latest ONS 2020-based population projections for the UK.

D.30 I have made no specific allowance for Covid-19 within either the baseline mortality or the future projections (other than what has been allowed for in the ONS 2020-based projections) and so the effect of any differences in actual experience for the Scheme will emerge at future valuations. I consider this reasonable given the uncertain nature of long term Covid-19 and post-Covid-19 effects and the size of the Scheme. At future valuations there may be more data available to enable the impact of Covid-19 to be assessed.

D.31 Table D.4 compares the life expectancies using the assumptions adopted for the 2023 valuation with those adopted for the 2020 valuation.

Table D.4: Expectations of life

Assumption	2023 valuation			2020 valuation		
	Male members	Female members	Female dependants	Male members	Female members	Female dependants
Current pensioner aged 65	23.6	25.2	24.0	23.7	25.1	24.0
Current Active aged 50 at age 65	24.8	26.4	25.2	24.9	26.3	25.1

D.32 Overall, the updated ONS-2020-based future mortality projections has resulted in a slight decrease in life expectancy for males, and a slight increase in life expectancy for females as shown in table D.4 above.

Appendix E: Summary of the main provisions of the Scheme

E.1 All serving Members of the Senedd and officeholders accrue benefits as described below.

Table E: Main provisions of the Scheme

Benefit	Members of the Senedd Pension Scheme
Accrual rates and Member Contribution rates	All benefits accrued after 6 May 2021 are on the Career Average Revalued Earnings (CARE) basis: • Members accrue pension on a CARE basis at the rate of 1/50th of pensionable salary. • Contributions are required at a rate of 10.5% of salary from scheme members. • Serving members who have reached the limits for maximum benefit accrual in the Scheme do not pay contributions. Final Salary benefits: Members who were in continuous reckonable service between 1 April 2012 and 6 May 2016 earned benefits on a final salary basis until the earlier of 6 May 2021 and their date of leaving the Scheme. • Benefits accrued at the rate of 1/40th of final pensionable salary per year of reckonable service, although members could also opt to pay lower contributions and accrue pension at the rate of 1/50th of final pensionable salary per year.
Senedd Contributions	Senedd contributions are paid at a rate recommended from time to time by the scheme actuary.

Benefit	Members of the Senedd Pension Scheme
Normal Retirement	CARE Retirement pensions are payable from State Pension Age to those who are no longer Members of the Senedd or office holders. Final Salary Retirement pensions are payable from age 65 to those who are no longer Members of the Senedd or office holders. Pensions may be paid before age 65 in the following circumstances: • Some members who joined the scheme before 1 April 2007 and have at least 15 years' service may benefit from more favourable early retirement terms in respect of their service before 6 May 2016. Abated pensions may be payable from earlier ages to members aged 55 or over.
Ill health Retirement	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.
Commuting Pension at Retirement	Members may, on retirement, commute part of their pension for a lump sum that is actuarially equivalent to the part of the pension forgone.
Benefits on Death in Retirement	Pensions are also payable to spouses and other qualifying partners of deceased scheme members: • for CARE benefits one half of the deceased member's pension. • for Final Salary benefits five-eighths of the deceased member's pension. Children's pensions are also payable.

Benefit	Members of the Senedd Pension Scheme
Benefits on Death in Service	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. A lump sum equal to two 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.
Increases to pensions	CARE pensions are revalued in line with CPI whilst an active member. Pensions and deferred pensions are increased annually in line with CPI.

Appendix F: Risk and uncertainties

F.1 There are a number of financial and other risks that the Scheme is exposed to, which could affect the funding level, that the Trustees should keep under review. Some of the more significant of these are summarised in Table F below including how the Trustees manage them.

F.2 The Trustees 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.

Table F: Material risks to the Scheme

Risk	Comment
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.	The Scheme is predominately invested in growth seeking investments to increase the likelihood of achieving high investment return in the long term. The Trustees regularly review their investment strategy and the performance of the Scheme's assets.
Longevity 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.	As mortality seems likely to improve over time, an allowance for future mortality improvements is included in the valuation assumptions to help mitigate this risk but it is impossible to predict future mortality with any certainty. 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.

Risk	Comment
Data Risk Valuation results and decisions 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.
Climate Change Risk 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.
Option Risk Members have a number of options in the Scheme such as taking early retirement, transferring benefits or commutation of pension for cash on retirement.	Relevant factors are set on best estimate assumptions to target the exercise of such options to be on a broadly cost neutral basis.
Legislative and other risks There is the risk that future changes to legislation could affect members' benefits or funding requirements.	There remains uncertainty on when, if and how RPI will be aligned to CPIH as proposed by the UK Statistics Authority and this may have implications for the investment strategy. No allowance included in the valuation for GMP equalisation as impact expected to be small (only relevant for transferred-in GMP).

Appendix G: Important limitations

G.1 In preparing this report, GAD has relied on the data and other information provided and described in this report. Any checks that GAD has made on this information are limited to those described in this report, including any checks on the overall reasonableness and consistency of the data. These checks do not represent a full independent audit of the data provided. In particular, GAD has relied on the general completeness and accuracy of the information supplied without independent verification.

G.2 This report has been commissioned by and prepared for the use of the Trustees of the Members of the Senedd Pension Scheme and must not be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior permission.

G.3 The intended users of this report are the Trustees. Other than the Trustees, 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.

G.4 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 will be encouraged to seek their own actuarial advice on the matter.

G.5 The scope and purpose of this report is to set out the results of the actuarial valuation of the Members of the Senedd Pension Scheme as at 31 March 2023.

G.6 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.