Government
Actuary's
Department

Members of the Senedd Pension Scheme

Valuation as at 1 April 2020
Report by the Scheme Actuary

5 July 2021

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Contents

1 Summary

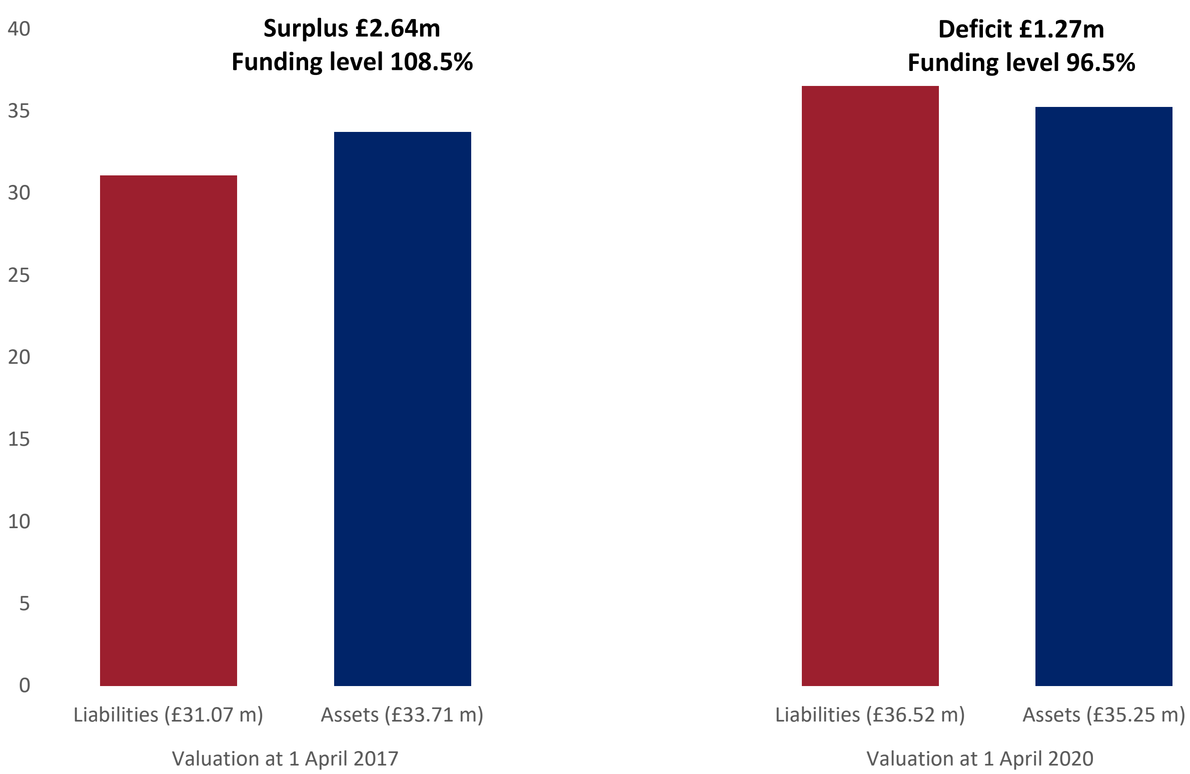
To: The Trustees of the Members of the Senedd Pension Scheme

1.1 I have carried out an actuarial valuation of the Members of the Senedd Pension Scheme (the “Scheme” or “Senedd Pension Scheme”) as at 1 April 2020. 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 the liabilities accrued up to the valuation date (including an allowance for future expenses and the McCloud remedy) is assessed as £36.52 million. The market value of the assets on the same date is £35.25 million. The deficit at 1 April 2020 is accordingly £1.27 million, as set out in figure 1.1 below. These figures do not include any allowance for funds in respect of members’ Additional Voluntary Contributions (AVCs).

Figure 1.1 – Past service funding position



1.3 The deficit in the scheme has largely arisen due to the combined impact of the following issues:

- The Scheme’s assets have increased in value but not by as much as was expected as at 1 April 2017. In particular, market values were depressed as at the valuation date due to uncertainty arising from the COVID pandemic with the overall scheme assets being around 10% lower than expected.

- In addition, allowance has been included in respect of the additional benefits that members may be entitled to as a result of the McCloud judgement (see section 3.4-3.8) which has increased the values of the liabilities.

1.4 The effect of these items has been offset to some extent by the members of the Senedd receiving lower than expected salary increases over the inter-valuation period, and also by changes in the future life expectancy of the membership. The main driver behind the reduction in life expectancy is a reduction in assumed future improvement under the ONS-2018 based principal population projections compared with the ONS-2016 projections used in the 2017 actuarial valuation. Both of these changes have reduced the value of the liabilities.

1.5 After taking account of other experience, the overall net effect is that the value of the Scheme's liabilities have increased by a greater amount than the increase in value of the Scheme's assets, and this has resulted in a deficit and a lower funding ratio of assets to liabilities of 96.5%.

Future service assessment

1.6 Based on the methodology and assumptions adopted for this assessment, the cost of benefits accruing in the Scheme for each year of membership is assessed as 28.5% p.a. of pensionable payroll, including an allowance for scheme expenses, payable from April 2021. The Senedd's share of the cost is 18.0% p.a. of pay, as shown in table 1.2 below.

1.7 Additional contributions of 1.8% p.a. would be required in order to pay off the deficit in the scheme over a period of 15 years. This would increase the rate that the Senedd would be required to pay to 19.8% p.a. of pensionable payroll.

Table 1.2 – Contribution Rates

Contribution rate	**1 April 2017 (% p.a.)**	**1 April 2020 (% p.a.)**
Standard Contribution Rate (including expenses)	30.3	28.5
Average member contribution rate	(10.4)	(10.5)
Senedd's share of the Standard Contribution Rate	19.9	18.0
Deficit contributions	-	1.8
Senedd contribution rate	**19.9**	**19.8**

1.8 The Senedd's share of the standard contribution rate was assessed as 19.9% of pay at the 2017 valuation. Following discussions with the Trustees, our recommendation was for all of the disclosed surplus to be retained within the scheme and for the Senedd contribution rate to be set at 19.9% of pay.

1.9 The Standard Contribution Rate as at 1 April 2020 is lower than the contribution rate as at 1 April 2017, mainly due to changes in the benefit structure of the Scheme with effect from May 2021 when all scheme members will be transferred to the CARE scheme. This has served to reduce the cost of accrual as the benefits accrued by those members currently building up final salary benefits are deemed to be more expensive than the corresponding CARE benefits.

1.10 In addition, there have been some other effects on the Standard Contribution Rate such as a reduction in expected cost of accrual due to the updating of the mortality assumptions and an increase in the expected cost of accrual due to the ageing of the membership compared to 1 April 2017. These items have largely offset each other.

1.11 Since March 2020 the UK has been dealing with the COVID-19 pandemic. The pandemic, in general, has had a significant impact on investment markets. In particular, investment markets experienced large falls in March 2020, although we have seen some degree of recovery after the valuation date.

1.12 Given the ongoing uncertainties (eg COVID-19, McCloud) it may be inappropriate to reduce the employer contribution rate significantly from the rate currently being paid.

1.13 Taking account of the views of the Trustees, my recommendation is for the Senedd contribution rate from 1 April 2021 to continue at 19.9% p.a. of pensionable pay.

1.14 Prior to signing this report we have undertaken a review of the scheme’s current funding position to confirm that the recommendation outlined in paragraph 1.13 above remains valid. Appendix I outlines the conclusions of this review and confirms that I remain content to recommend a contribution rate of 19.9% of pensionable pay. This rate will be reviewed as part of the next actuarial valuation due as at 1 April 2023.

1.15 Throughout this report the totals given for summed data may not be exactly the same as the sum of the components shown due to rounding effects.

2 Introduction

Governing legislation

2.1 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) of and Schedule 11 to the Government of Wales Act 2006 provides continuity for the Scheme.

2.2 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

2.3 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 Appendices A and B. If there are any inconsistencies between these Appendices and the Rules, it is the Rules that will prevail.

Requirement for a valuation

2.4 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 1 April 2017 and this report relates to our assessment as at 1 April 2020. This report gives an assessment of the financial position of the Scheme as at this date, together with our determination of the contributions to be paid by the Senedd Commission to the Scheme following the valuation.

Previous actuarial valuation

2.5 The previous actuarial valuation was carried out by me as at 1 April 2017.

2.6 At the previous valuation the liabilities were assessed as being £31.07m and the market value of the assets was £33.71m; this equated to a funding level of 108.5%. The recommendation was that all surplus should be retained within the scheme, and the Senedd contribution rate should be set at 19.9% of pay, in line with the Commission's share of the Standard Contribution Rate.

Cost cap valuation

2.7 The Scheme Rules and the Public Service Pensions Act 2013 require the Actuary to undertake a cost cap valuation in addition to the funding valuation. This report only relates to the funding valuation required under Rules 19 and 20.

Third party reliance and liability

2.8 The scope and purpose of this report is to set out the results of the actuarial valuation of the Senedd Pension Scheme as at 1 April 2020.

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

2.10 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.

2.11 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 be encouraged to seek their own actuarial advice on the matter.

2.12 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.

3 Developments since the 2017 valuation

The main changes have been:

Change in name

3.1 From 6 May 2020 the National Assembly for Wales became the Welsh Parliament, commonly known as the Senedd. The name of the Assembly Members Pension Scheme was changed to the Members of the Senedd Pension Scheme and Assembly Members changed to the Members of the Senedd. The Assembly Commission was also changed to the Senedd Commission.

GMP Equalisation

3.2 In October 2018 there was an important High Court case involving the Lloyds Bank pension schemes. In that case the High Court ruled that pension schemes must address the impact and adjust scheme benefits to remove gender inequalities caused by Guaranteed Minimum Pensions (GMPs) earned from 17 May 1990, by increasing benefits where appropriate.

3.3 The Senedd Pension Scheme was set up on 5 May 1999, therefore, scheme members would not have accrued GMP benefits between 1990 and 1997. Members who brought a transfer into the scheme may have transferred in eligible GMP, but I expect the impact to be immaterial for the purpose of an actuarial valuation.

McCloud

3.4 When the new Career Average Revalued Earnings Scheme (CARE) was introduced in May 2016, Members of the Senedd aged 55 or over on 1 April 2012 were subject to ‘transitional protection’. This meant that they stayed in the Final Salary section of the Scheme for a further five years until May 2021 while younger Members of the Senedd were moved out of Final Salary and into the new CARE section. Transitional protection was put in place throughout the public sector when schemes were reformed in 2015.

3.5 Members of the Firefighters and Judicial pension schemes brought age discrimination cases against the Government for allowing such provisions to apply to certain members. In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges’ and firefighters’ schemes, as part of the reforms, gave rise to unlawful discrimination. This is known as the McCloud Judgement.

3.6 The Scheme’s legal adviser has confirmed that the McCloud judgement applies to the Members of the Senedd Pension Scheme and that a remedy will need to be put in place to correct the discrimination caused by the transitional protection provisions in the Scheme rules. The period for which age discrimination exists is between 6 May 2016 and 5 May 2021 (“the Remedy Period”).

3.7 Members of the Senedd who were not active on 1 April 2012 (or did not continue in active service until 6 May 2016) are not subject to the McCloud remedy and therefore no amendments are required for these members.

3.8 The decision as to what the remedy will be rests with the Remuneration Board as they are responsible for the Rules of the Scheme.

COVID-19

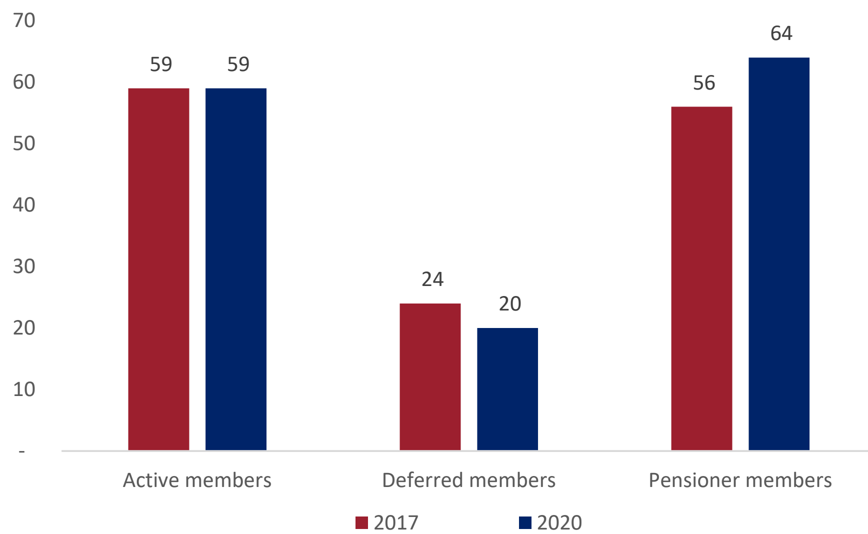
3.9 Since March 2020 the UK has been dealing with the COVID-19 pandemic. The pandemic has had a significant impact on investment markets. The 2020 valuation assumptions were set under conditions which were different from those at the time of signing of this report. Prior to signing this report, we have therefore undertaken a review of the scheme's current funding position to confirm that the proposals outlined remain valid. Details of this review are included in Appendix I.

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, 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.

4.2 Figure 4.1 below summarises the membership numbers as at 1 April 2017 and 1 April 2020. Appendix D provides further details of the membership of the Scheme at the valuation date, and the changes in membership since 2017.

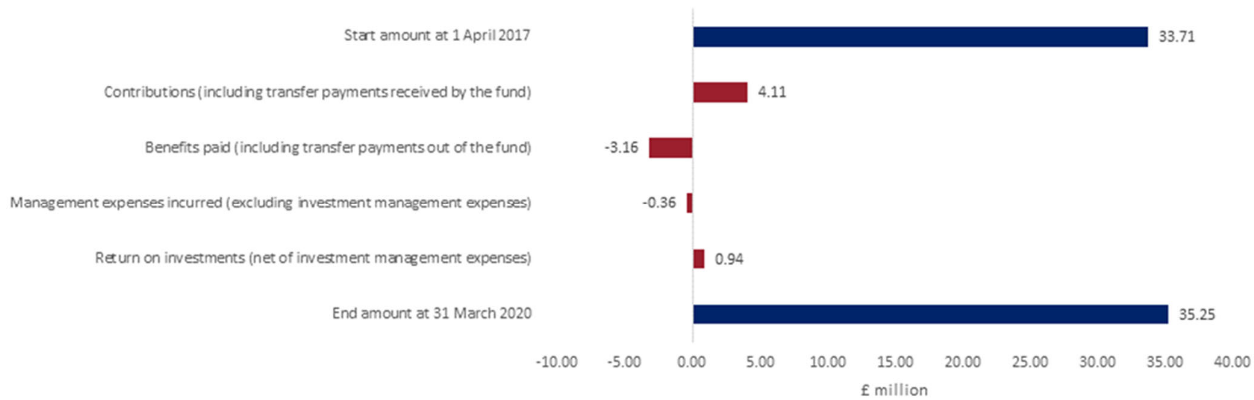
Figure 4.1 – Membership numbers



Accounts

4.3 Taken from the published accounts, the income and expenditure of the Scheme in the three-year period from 1 April 2017 to 1 April 2020 is summarised in Appendix E. The market value of the Scheme's assets increased over the period by £1.54 million, from £33.71 million to £35.25 million. Figure 4.2 below shows a breakdown of the increase:

Figure 4.2: Increase in assets 2017-2020



4.4 As the fund continues to mature, benefit expenditure can be expected to increase relative to contribution income.

Investments

4.5 Appendix E contains a summary of the underlying investment classes held by the Scheme at 31 March 2020. This shows a majority of the investments (about 90% by market value) in company shares or other return seeking assets (such as equity, property and private market return seeking holdings), including investments in the Diversified Growth Fund (DGF).

4.6 At the valuation date, about 33% was invested in the Baillie Gifford DGF and about 14% was invested in the BNY Mellon Sustainable Real Return Fund. The DGFs invest in a wide variety of assets. About 26% of the assets were invested in the LGIM Ethical Global Equity Index. Around 10% was invested in Partners Group Generation Fund which provides access to a range of private markets. The rest of the assets were held in a mixture of property and bonds.

4.7 The investment return achieved on the Scheme's assets over the three years since the last valuation was an average of 0.9% a year. The annual returns in each year since the last valuation are shown in table 4.3 below.

Table 4.3 – Investment returns achieved 2017-2020

Period	Investment return
1 April 2017 to 31 March 2018	+5.1%
1 April 2018 to 31 March 2019	+4.0%
1 April 2019 to 31 March 2020	-5.9%

4.8 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 31 March 2020, which is £35.25m (for the avoidance of doubt there are no separate AVC funds in the Scheme).

5 Actuarial assumptions

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 G and discussed in the following paragraphs. The approach adopted to deriving the financial and demographic assumptions has been to determine assumptions which are broadly best estimate. The Scheme is too small for its own experience to be statistically significant enough to derive the demographic assumptions, and so I have also had regard to experience and trends in other larger public service pension schemes.

Demographic assumptions

5.2 Assumptions are needed on such factors as rates of mortality, retirement and withdrawal from the Senedd. The mortality assumptions adopted are described below. The other assumptions adopted are the same as for the previous valuation of the Scheme and are set out in appendix G.

Pensioner mortality

5.3 The Scheme is small and so has no credible Scheme experience to use to set the mortality assumptions. I have considered the mortality experience in larger public service pension schemes, with a high proportion of professional staff. The mortality experience in the NHS Pension Scheme in England & Wales (NHSPS) is monitored closely, and is an appropriate comparator, containing a large proportion of professionals in public service.

5.4 For the 2017 valuation, the baseline mortality assumptions adopted were those adopted for the 2016 valuation of the NHSPS for which an adjustment was made to the S2 series of standard tables. 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') 2016-based UK population projections.

5.5 There has been no further valuation of the NHSPS since that in 2016 but a new set of standard mortality tables known as the S3 series has been introduced. Therefore, I have retained a base mortality assumption broadly in line with that adopted for the 2017 valuation but re-expressed in terms of the S3 series of standard tables. Changing from the standard S2 mortality table to the more recent S3 tables does not have a material impact on the scheme liabilities. I have assumed future mortality improvement in accordance with the assumptions made for the latest, ONS 2018-based population projections of the UK. Details of the mortality assumptions are set out in Appendix G.

5.6 The current population mortality projections make no specific allowance for the impact of Covid-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it remains too early in the pandemic to determine whether Covid-19 changes the long-term view of life expectancy in the UK. It is therefore reasonable to not make an explicit adjustment to the 2020 mortality assumptions. A death rate from Covid-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain in the 2023 actuarial valuation.

5.7 Tables 5.1 and 5.2 below compare the life expectancy of a 65 year old pensioner using assumptions adopted for the previous Scheme valuation, and those adopted for the 2020 valuation. This shows a decrease in life expectancy which has largely arisen as a result of the latest ONS population projections. A slowdown in the rate of improvement in life expectancy has been observed across many pension schemes and the UK population as a whole and shows that the historic trend of increasing life expectancy has, for the time being at least, been interrupted.

Table 5.1 – Expectations of life in years at age 65 – current pensioners

	Valuation date	
	2017	**2020**
Male members	24.3	23.7
Female members	25.7	25.1
Widows	24.5	24.0

Table 5.2 – Expectations of life in years at age 65 – actives and deferred pensioners now age 50

	Valuation date	
	2017	**2020**
Male members	25.8	24.9
Female members	27.2	26.3
Widows	25.9	25.1

Parliamentary terms

5.8 At the previous valuation, Senedd Elections were assumed to take place every five years, with the next election taking place in May 2021. I have retained this assumption for the 2020 valuation, with the next election after the valuation date having taken place in May 2021.

Career patterns

5.9 I have adopted the same assumptions as for the previous valuation. Appendix G contains full details of the assumptions adopted.

Financial assumptions

5.10 The main financial assumptions adopted for the current and previous valuations are set out in table 5.3 below.

Table 5.3 – Financial assumptions

Assumption	1 April 2017	1 April 2020
Gross rate of return (or discount rate)	4.65% p.a.	4.55% p.a.
Earnings increases	4.1% p.a.	3.75% p.a.
Price/pension increases (CPI)	2.1% p.a.	2.0% p.a.
Real rate of return, net of earnings increases	0.5% p.a.	0.75% p.a.
Real rate of return, net of price/pension increases	2.5% p.a.	2.5% p.a.

Discount rate

5.11 The discount rate is the interest rate that is used to place a current value on future cashflows out of the Scheme. The discount rate is based on the assumed returns expected from the Scheme's investments. On this basis, the 2017 valuation used a discount rate of 2.5% a year (in excess of CPI).

5.12 The 2020 discount rate has been assessed by considering the expected return on the Scheme's strategic asset allocation. This is consistent with the approach adopted in 2017. The proportion of the Scheme's assets in different asset classes may vary from the strategic asset allocation from time to time. Consideration of the strategic asset allocation therefore ensures that the discount rate represents the long term expected return on the scheme assets. Table 5.4 below shows the strategic asset allocation across different asset classes as 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. These represent GAD's view of the best estimate returns on the different asset classes at the valuation date.

Table 5.4 – Expected return on assets at 1 April 2020

Asset class	Asset allocation as at 1 April 2020	GAD's expected return in excess of CPI at 1 April 2020
Equities	35%	3.5% p.a.
Investments in the DGFs	50%	2.0% p.a.
Bonds (index-linked government bonds)	10%	-1.55% p.a.
Property	5%	2.5% p.a.
Overall		2.2% p.a.

5.13 The investment advisers' best estimate expected return on assets as at 1 April 2020 (based on the scheme's strategic asset allocation) was 2.7% in excess of CPI.

5.14 Having regards to the Scheme's investment strategy and the best estimate returns expected by GAD and the scheme's investment advisers, I have therefore adopted a discount rate for the 2020 actuarial valuation of 2.5% in excess of CPI.

Price inflation

5.15 The Scheme provides benefits linked to Consumer Prices Index (CPI) inflation and, because there was no significant market in CPI linked securities from which to derive a market-based assumption for CPI, the approach adopted had been to estimate future CPI inflation by deriving a market-based assumption for Retail Price Index (RPI) inflation and to consider the expected gap between RPI and CPI.

5.16 In early September 2019, an exchange of letters between the Chancellor of the Exchequer and the Chair of the UK Statistics Authority (UKSA) suggested that there was a high likelihood that RPI formulation will be "fixed" to bring it into line with CPIH.

5.17 Market implied RPI fell on this announcement but not as much as might have been expected, either because markets were already pricing in this announcement to some extent, or because gilt holders expect that they might receive some form of compensation.

5.18 The UK government launched a consultation at Budget 2020 to understand the impact of potential changes and consult on what changes should be made to RPI and when these should come into force. As at the valuation date there was therefore significant uncertainty regarding how RPI would evolve.

5.19 Given the difficulties in determining inflation expectations from market prices as at the valuation date, I proposed to set an assumption for CPI at 2% p.a. This was in line with the Bank of England's CPI target, recent history and implied market expectations prior to the announcement.

5.20 Following the joint consultation between the Chancellor and the Chair of the UK Statistics Authority on aligning RPI with CPIH, a response was issued on 25 November 2020. The response confirmed the following:

- The Government does not consent to the alignment of RPI with CPIH before 2030
- The UKSA confirmed its policy to implement the change at the earliest possible time. In the absence of any unforeseen circumstances, the UKSA will make the change in February 2030
- The Government confirmed that compensation will not be paid to index-linked gilt holders

5.21 Given the uncertainties, particularly at the date of the valuation, I have concluded that it is appropriate to retain the CPI assumptions as previously proposed and outlined above. At future valuations when experience of the new framework for inflation indices has developed more, it may prove feasible to incorporate market price information once more when considering the CPI assumption.

Pension increases

5.22 Pension increases on pensions in payment and in the deferred period, and revaluation of CARE benefits whilst members are in active service, are generally in line with increases to CPI. Hence, this assumption is taken to be 2.0% per annum.

Nominal investment return

5.23 The combination of a return in excess of CPI of 2.5% p.a. and CPI inflation of 2.0% p.a. produces a nominal rate of investment return of 4.55% pa.

5.24 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).

Pay increases

5.25 The benefits accruing under the final salary benefit structure 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 1.75% p.a. in excess of CPI.

Expenses

5.26 Administration expenses incurred by the Scheme during the three-year inter-valuation period were around £350,000, 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 £0.5m was also set aside from the surplus for expenses.

5.27 The expense reserve of £0.5m was set aside at a previous valuation. to cover any exceptional items of expense. Although the Scheme has a small deficit as at 1 April 2020, we have continued to adopt a £0.5m expense reserve.

5.28 For the 2020 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.

6 Valuation results – funding level

6.1 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 6.2 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 7.

Past service assessment

6.2 The value of the liabilities for past service and the assets of the Scheme have been determined on the methodology set out in Appendix C of this report, using the actuarial assumptions described in section 5 and Appendix G. The results of the valuation in relation to past service liabilities are set out in table 6.1 below.

Table 6.1 – Valuation statement as at 1 April 2020 – past service

		Value at 1 April 2020 (£ million)
	Current members – service up to 1 April 2020:	
(1)	(a) Members of the Senedd	13.99
(2)	(b) Office holders	0.78
	Members with deferred benefits:	
(3)	(a) Former members	4.04
(4)	(b) Former office holders who are still Members of the Senedd	1.95
	Pensions in payment:	
(5)	(a) Pensioners	11.66
(6)	(b) Surviving dependants of former members	2.21
	McCloud allowance	
(7)	(a) Value of liability expected to be built up in the period to 5 May 2021 in respect of the McCloud remedy	1.44
(8)	**Total liabilities for benefits (McCloud allowance) = (1) to (7)**	**36.02**
(9)	Reserve for administration expenses	0.5
(10)	**Actuarial liability = (8) + (9)**	**36.52**
(11)	**Value of assets**	**35.25**
(12)	**Deficit of assets over liabilities = (11) – (10)**	**(1.27)**
(13)	**Ratio of assets to liabilities = (11) / (10)**	**97%**

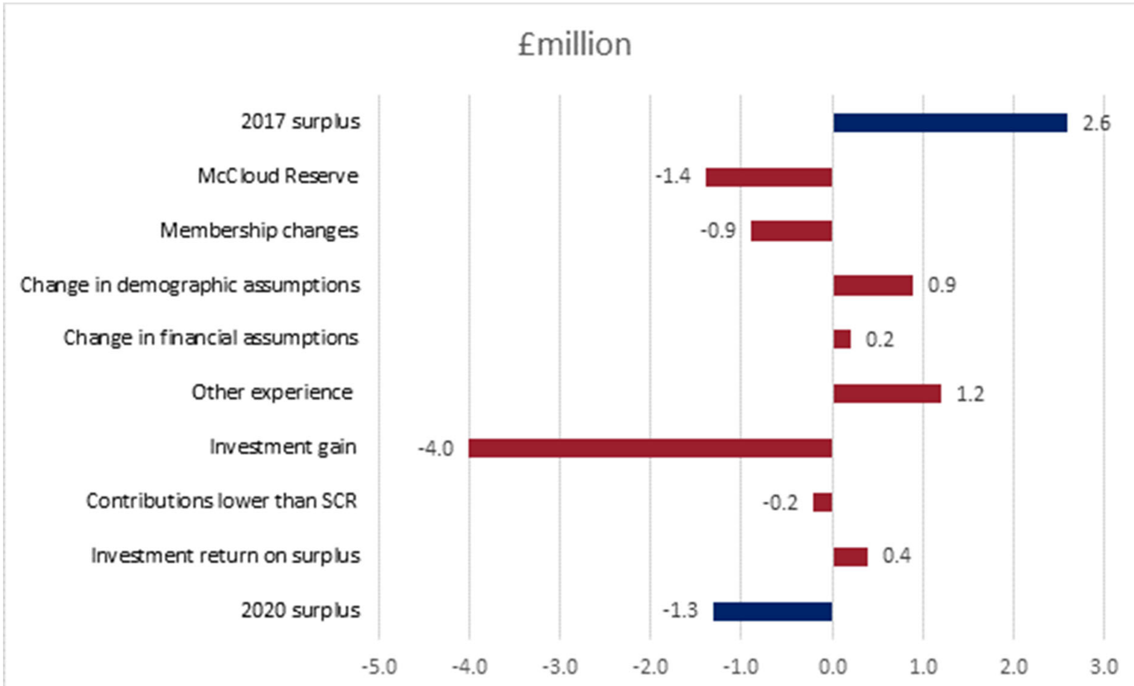
• Sum does not work due to rounding

6.3 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 £14.77 million (rows (1) and (2) above), is slightly larger than the liability in respect of former members and dependants in receipt of pension at £13.87 million (total of rows (5) and (6) above). The liability profile is expected to continue to mature for the foreseeable future.

Analysis of surplus

6.4 The result of the valuation shows a move from a surplus of £2.6 million to a deficit of £1.3 million over the three-year period to the valuation. The key factors influencing the change are shown in figure 6.2 below.

Figure 6.2 – Summary of change in surplus 2017-2020



7 Valuation results – contribution requirement

Future service assessment

7.1 The cost of benefits accruing for future service is assessed by means of the Standard Contribution Rate, as described at paragraph C.6 in Appendix C. The Standard Contribution Rate calculated on the actuarial assumptions set out in section 5 of this report is 28.5% for Members of the Senedd and office holders combined (including the allowance of 1% for scheme expenses).

7.2 Contributions at the valuation date were payable by members at the rate set out in Appendices A and B. Member contributions will be 10.5% of pay from 1 April 2021 when all members will be accruing CARE benefits.

7.3 The Senedd's share of the Standard Contribution Rate, which is the balance of costs that would fall to be met by the Senedd in the absence of any surplus or deficiency, is assessed as 18.0% of pensionable salaries (being 28.5% less 10.5%).

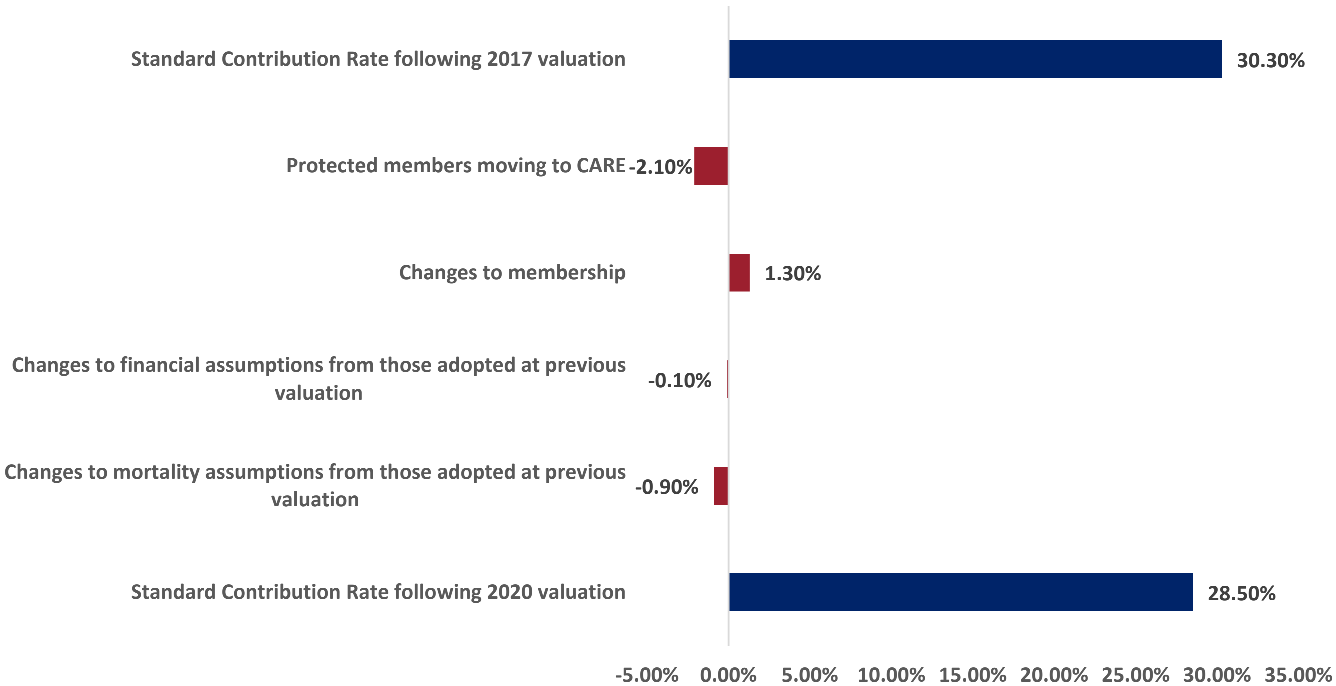
7.4 The Standard Contribution Rate is sensitive to changes made to the assumptions, and to changes in the active membership. If the average age of the membership rises over time, the Standard Contribution Rate could be expected to increase slightly (all else being equal). I have used the age of the membership at the valuation date to calculate the SCR and have not allowed for the increase in age between then and the next valuation in 2023.

7.5 The next election, which could result in changes to the active membership, is due to take place before the next valuation date. I expect that changes in the profile of the membership will have a greater impact on the size of the SCR than the ageing of the current active membership and so for this valuation, our view is that allowing for ageing is unnecessary. This is a different approach to that adopted at the 2017, where no election was expected during the inter-valuation period and the SCR was based on the average age of the membership during the election cycle.

Analysis of change in Standard Contribution Rate

7.6 Figure 7.2 below summarises the main factors that account for the change to the Standard Contribution Rate.

Figure 7.2 – Changes to Standard Contribution Rate



Determination of the rate of Senedd contributions

7.7 Under Rule 20.1(b), the Actuary is required to determine the rate of Senedd contributions to the fund. I have consulted the Trustees on the options for the Senedd contribution rate, and their preference is for an addition to the standard contribution rate to be paid with the aim of eliminating the deficit in the Scheme within 15 years from the valuation date. This approach is not inconsistent with the Scheme's funding objectives. And I have been informed that the Senedd Commission and the Remuneration Board agree with this approach.

7.8 If we were to strictly follow the standard approach, the overall Senedd contribution rate from 1 April 2021 would be set as 19.8% of pensionable salaries (based on the 18.0% Senedd share of the SCR plus 1.8% deficit contributions) as outlined in Table 1.2 of section 1 of this report. However, the rate of 19.8% determined on this approach is very close to that currently in payment of 19.9%.

7.9 Given the ongoing uncertainties (eg COVID-19, McCloud) it may be inappropriate to reduce the employer contribution rate significantly from the rate currently being paid.

7.10 Taking account of the views of the Trustees, my recommendation is therefore for the Senedd contribution rate from 1 April 2021 to continue at 19.9% p.a. of pensionable pay.

8 Sensitivities

Future service assessment

8.1 I have considered how sensitive the results are to changes in the assumptions, and the Scheme experience differing from the assumptions. Table 8.1 below illustrates the sensitivity of the liabilities and contribution rate as at 1 April 2020 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.)

Future investment return (or discount rate)

8.2 For the purposes of the valuation I have assumed that the Scheme's investments will produce future returns of 2.5% a year above the level of CPI price inflation over the long term. The results that would have been obtained using investment yield assumptions of 0.25% per year more than or less than this are shown in table 8.1 below.

Salary growth

8.3 For the purposes of the valuation I have assumed that salary growth will be 1.75% 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 table 8.1 below.

Longevity

8.4 The assumptions made for longevity are described in paragraphs 5.3 - 5.6 of the report and further details can be found in Appendix G. The sensitivity of the valuation result to a 2.5% increase in the scaling factors applied to the standard mortality tables[1] is illustrated in table 8.1 below.

Table 8.1 – Sensitivities to main valuation assumptions

Assumption	Adjustment made	Surplus (deficit) at 1 April 2020
Central valuation assumptions adopted	n/a	(£1.3m)
Discount rate (net of CPI)	+0.25%	£0.2m
Salary growth	-0.5%	(£0.9m)
Mortality	+2.5% scaling factor	(£1.1m)

[1] The scaling factors applied to the standard mortality tables in the calculation of the valuation results are set out in Table G1 in Appendix G.

Assumption	Adjustment made	Senedd share of Standard Contribution Rate	Contribution rate to pay deficit over 15 years
Central valuation assumptions adopted	n/a	18.0% p.a.	1.8% p.a.*
Discount rate (net of CPI)	+0.25%	16.6% p.a.	-
Salary growth	-0.5%	18.0% p.a.	1.3% p.a.
Mortality	+2.5% scaling factor	17.9% p.a.	1.6% p.a.

*The deficit reduction contribution of 1.9% implicit in my recommended Senedd contribution rate will pay the deficit slightly more quickly.

Sensitivity to market value changes

8.5 I have considered how the valuation results may look as at 1 April 2023, on three scenarios of investment performance in the inter-valuation period:

Base scenario: All assumptions are unchanged from those adopted for the 2020 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 2023 valuation is ***0.5% lower*** than as at the 2020 valuation.

Scenario 2: In line with the base scenario but assuming an ***investment return*** of ***-20%*** on the Scheme's assets between 1 April 2020 to 31 March 2023.

Table 8.2 – Sensitivity to result of 2023 valuation

Scenario	Projected Liabilities	Projected Assets	Projected Surplus/ (deficit)	Senedd share of Standard Contribution Rate	Deficit Contribution Rate
Base Scenario	£44m	£43m	(£1m)	18%	1.5%
Scenario 1	£47m	£43m	(£4m)	21%	5.6%
Scenario 2	£44m	£30m	(£14m)	18%	17%

8.6 In calculating the figures above, I have made a number of assumptions as follows:

a) In line with the recommendations in this report the contributions into the Scheme are assumed to be 30.4% of pay between 1 April 2020 to 31 March 2023, although from 1 April 2021 1.9% p.a. of this contribution is assumed to be allocated to deficit funding rather than meeting the cost of future benefit accrual.

b) Any deficit as at the 31 March 2023 valuation is assumed to be amortised over a period of 15 years on the discount rate prevalent in the relevant scenario.

c) We have not attempted to carry out a full valuation of the Scheme as at 31 March 2023, rather we have rolled forward the results as at 31 March 2020 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 2019 to 31 March 2020, with allowance for increases in line with the assumptions adopted for the 2020 valuation;
   - The pensionable payroll profile remains stable over the period with allowance for assumed increases to pensionable pay;
   - We have not made any allowance for a potential change in membership as a result of the elections in May 2021, as such active membership is also assumed to be stable over this period.

d) The way in which we have carried out these calculations is approximate, and there may be small second order affects that would change the results but I do not believe this is material for the purpose of the analysis.

9 Conclusion

9.1 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 Senedd Pension Scheme as at 1 April 2020, using the methodology and actuarial basis described in this report, and the determination I am required to give under the Rules is set out in paragraph 9.2 below.

9.2 Our determination is that the Senedd's contributions payable from 1 April 2021 should be at the rate of 19.9% of pensionable pay adjusted to take account of any changes in members' contributions and/or any benefits which the Remuneration Board announces as a result of the cost cap valuation.

Martin Clarke FIA

Government Actuary

5 July 2021

Appendix A: Summary of the main provisions of the Scheme

A.1 Members of the Senedd who were aged 55 or over on 1 April 2012 and who were in continuous reckonable service between 1 April 2012 and 6 May 2016 continue to accrue final salary benefits as described in this section until 6 May 2021. Non protected members accrue benefits as set out in Appendix B.

A.2 Ministers and certain other office holders who qualify for protection as described in paragraph A.1 participate in a supplementary section of the Scheme and qualify for a supplementary pension on a similar basis to Members of the Senedd except that benefits accrue by reference to salary in each year of office holder membership, rather than by reference to final pay.

A.3 Contributions are required at a rate of 10% of salary from scheme members. Pensions accrue at the rate of 1/40th of final pensionable salary per year of reckonable service. Service while a member's salary is abated as an MP is reduced pro-rata to the reduction in salary.

A.4 Members may instead opt to pay contributions at a rate of 6% of salary and to accrue pension at the rate of 1/50th 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.5 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:

- 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.

- 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.

A.6 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.7 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.8 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 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.

A.9 Pensions and deferred pensions are increased annually in line with CPI.

Appendix B: Summary of the main provisions of the Scheme as at 1 April 2020

B.1 All serving Members of the Senedd and officeholders who are not entitled to transitional protection accrue benefits as described below.

B.2 Contributions are required at a rate of 10.5% of salary from scheme members.

B.3 Members accrue pension on a Career Average Revalued Earnings (CARE) basis at the rate of 1/50th of pensionable salary.

B.4 Pensions are revalued in line with CPI whilst an active member.

B.5 Retirement pensions are payable from State Pension Age to those who are no longer Members of the Senedd or office holders. Abated pensions may be payable from earlier ages to members aged 55 or over (age 50 for those who joined before 6 April 2006).

B.6 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.

B.7 Members may, on retirement, commute part of their pension for a lump sum that is actuarially equivalent to the part of the pension forgone.

B.8 Pensions are also payable to spouses and other qualifying partners of deceased scheme members at the rate of one half 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 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

B.9 Pensions and deferred pensions are increased annually in line with CPI.

Appendix C: Funding objective and valuation method

Funding objective

C.1 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.2 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.3 For this valuation, I have retained the same valuation method as was adopted for the previous valuation as at 1 April 2017. 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 on final salary benefits, and allowing for CPI increases on CARE benefits. 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.

Actuarial liability

C.4 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.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. At this valuation a McCloud reserve has been added to the actuarial liability. This is discussed further in C.10 to C.14 below. The value of the assets held in the fund can then be compared directly with this Actuarial Liability.

Standard Contribution Rate

C.6 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.7 This rate is sensitive to changes made to the assumptions, and to changes in the active membership. 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). 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 a Senedd Election if a number of older members retiring were to be replaced by younger members. As the election in 2021 could have a large effect on the Standard Contribution Rate should the membership vary significantly, we have not allowed for the ageing of members as part of this valuation.

Required contribution rate

C.8 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).

Office holders

C.9 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 on 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 Reserve

C.10 It was agreed with the trustees that a reserve for the cost of the McCloud remedy should be included within the actuarial liability as at 1 April 2020. 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.11 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. In practice, it is expected that members will be offered a choice between final salary and CARE benefits for the remedy period.

C.12 Our McCloud reserve is an estimate which has been produced in line with the actuarial assumptions set out in section 5. The calculation has been broken down in two parts for current active members:

- Actives Past Service: 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 the valuation date compared with the value of the benefits actually accrued over that period.

- Actives Future Service: In line with the past service liabilities, the cost of the McCloud remedy between 1 April 2020 and 5 May 2021 has been calculated to be the difference between the cost of members accruing final salary benefits compared with the cost of the benefits under the current scheme provisions over that period.

C.13 Deferred and current pensioners potentially impacted by McCloud have not been explicitly allowed for in the estimated McCloud cost. However, as there have been no elections since the start of the remedy period the impact on the McCloud reserve should be relatively small.

C.14 The elements of the calculation are combined into a single McCloud reserve which is included in the actuarial liability at 1 April 2020.

C.15 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 1 April 2020, depending on the Remedy implemented by the Remuneration Board. Any difference between the final remedy and the methodology assumed above, will emerge as a source of surplus or deficit at the 2023 valuation.

Going concern

C.16 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 Rules contain no provisions to determine the wind up or discontinuance of the Scheme.

Appendix D1: Membership at 1 April 2020

Table D1 – Membership as at 1 April 2020

Category	Number of members[1]	Average age[2]	Total pension (pa)	Average pension[3] (pa)	Total salary (pa)
Active Senedd Members	59	54.7	£921,000	£15,600	£4.0m
Active officeholders	40	55.6	£56,000	£1,400	£0.9m
Deferred office holdings for active Senedd Members	75		£139,000	£1,900	
Deferreds	20	55.5	£250,000	£12,500	-
Pensioners and dependants	64	69.6	£832,000	£13,000	-

1. Some members appear in more than one category.
2. Unweighted.
3. Including the pension increase as at April 2020, where applicable

Table D2 – Membership as at 1 April 2017

Category	Number of members	Average age	Total pension (pa)	Average pension (pa)	Total salary (pa)
Active Senedd Members	59	53.0	£625,000	£11,800	£3.9m
Active officeholders[1]	36	52.8	£116,000	£3,200	£0.8m
Deferreds	24	54.9	£319,000	£13,300	-
Pensioners and dependants	56	69.3	£638,000	£11,400	-

Deferred office holdings for active Senedd Members are included within the active officeholders data. These have been shown as a separate category in the 2020 summary table.

D1 Changes in active membership of the Scheme have been very low since 1 April 2017 as there have been no elections.

Appendix E: Consolidated revenue account for the period 1 April 2017 to 1 April 2020

Table E1 – Consolidated revenue account for the period 1 April 2017 to 1 April 2020

	£000s	£000s
Balance at 1 April 2017		**33,713**
Income over period from 1 April 2017 to 1 April 2019:		
(a) Senedd regular contributions	2,636	
(b) Member regular contributions	1,471	
Total Income (excluding interest)		**4,107**
Expenditure over period from 1 April 2017 to 1 April 2020:		
(a) Retirement benefits	3,155	
(e) Professional fees and administration costs	356	
Total expenditure		**(3,511)**
Interest on cash deposits and change in market value of investments over period from 1 April 2017 to 1 April 2020:		**940**
Balance at 1 April 2020		**35,250**

Appendix F: Analysis of the investments of the Scheme

Table F1 – Investment of the scheme as at 31 March 2020

Figures may not total exactly due to rounding

Type of asset	Value at 31 March 2020 £000s	Distribution of fund assets at 31 March 2020 *(%)*
Overseas equities	9,286	26.3
Diversified Growth Funds and other private market return seeking	20,152	57.2
Bonds (index-linked government bonds)	3,919	11.1
Property	1,820	5.2
Current assets and liabilities	73	0.2
Total assets of the Scheme	**35,250**	**100.0**

Appendix G: Assumptions

Demographic assumptions

Table G1 – mortality assumptions for 2020 valuation

Members	Mortality table
Males	85% of S3NMA-18
Females	85% of S3NFA (Middle) -18
Widowers and other partners of female members	85% of S3NMA-18
Widows and other partners of male members	100% of S3NFA (Middle) -18

Note: The SAPS S3 mortality tables 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 tables used are the published S3NA tables with future improvements broadly in line with population improvements to 2018 and in line with the 2018-based principal population projections thereafter. For females the middle table has been used, which is based on the data with the highest and lowest pension amounts removed.

Senedd terms

Senedd Elections are assumed to take place every five years, with the next election after the valuation date having taken pace in May 2021.

Career patterns

Turnover assumptions 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, are shown in table G2 below.

Table G2 Turnover assumptions for protected members

Age at election date	Proportion of members who leave Parliament at 2021 election
Under 63	25%
63 to 75	80%
75	100%

These are assumptions for members who are transitionally protected at the valuation date. These members will no longer be transitionally protected after the 2021 election and therefore be subject to the turnover assumptions outlined in Table G3.

Table G3 Turnover assumptions for unprotected members as at 2021 election and all members who leave at subsequent elections

Age at election date	Proportion of unprotected members who leave Parliament at 2021 election	Proportion of all members who leave Parliament at subsequent elections
More than 2 years below state pension age (SPA)	25%	25%
SPA-2 to 75	80%	80%
75	100%	100%

Table G4 - Assumed age at leaving the Senedd under assumptions above

Age at valuation date	Assumed age of leaving Parliament
40	53
50	60
60	66
70	72

State Pension Age

State Pension Age is assumed to be 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.

Table G5 – financial assumptions adopted for 2017 and 2020 valuations

Assumption	1 April 2017	1 April 2020
Gross rate of return (or discount rate)	4.65% p.a.	4.55% p.a.
Earnings increases	4.1% p.a.	3.75% p.a.
Price/pension increases (CPI)	2.1% p.a.	2.0% p.a.
Real rate of return, net of earnings increases	0.5% p.a.	0.75% p.a.
Real rate of return, net of price/pension increases	2.5% p.a.	2.5% p.a.

Appendix H: Risks and uncertainties

H.1 Table H1 below provides a high-level summary of the primary risks which exist in the scheme:

Table H1: Risks and uncertainties

Risk	Details	Comments
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 currently immature and therefore predominately invested in return seeking investments to increase the likelihood of achieving high investment return in the long term. Trustees regularly review their investment strategy and the performance of the Scheme's assets.
Mortality 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.	In recent history there has been a trend that has shown life expectancy increases over time and the Trustees have made 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. Evidence over the past few years appears to show that these increases may have slowed in the short term. There is currently additional uncertainty arising from the COVID 19 pandemic (see Appendix I) 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.
Data Risk	Valuation results 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.

Risk	Details	Comments
Climate change	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. This is recognised in the Trustees' objectives in their Statement of Investment Principles. *'The Trustees are aware of the growing body of evidence linking Environmental, Social and Governance ("ESG") issues, particularly climate change to good, future focused financial performance. The Trustees wish to take into account these issues when implementing the investment strategy for the Scheme, so long as this does not unduly prejudice the long-term return and risk profile of the individual funds, or strategy.'*
Brexit	The long-term effects of Brexit will emerge over time now that the UK has exited from the EU and the subsequent transition period has ended.	The Trustees keep their long-term investment strategy under review and seek views from their investment consultants in relation to any emerging risks.
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 risk	There is the risk that future changes to legislation could affect members' benefits or funding requirements.	RPI is to be aligned to CPIH as proposed by the UK Statistics Authority in 2030 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). The implementation of the McCloud remedy could affect the benefits in a way that has not been foreseen as at the date of the valuation, but we do not consider this a particularly material risk.

H.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.

Appendix I: COVID-19

I.1 Since March 2020 the UK has been dealing with the COVID-19 pandemic. The pandemic has had a significant impact on investment markets. The 2020 valuation assumptions were set under market conditions which were different from those at the time of signing of this report. Prior to signing this report we have therefore undertaken a review of the scheme's current funding position to confirm that the recommendations remain valid.

I.2 As at the valuation date, the expected return on the Scheme's assets was around 2.5% a year in excess of CPI.

I.3 We have compared the expected return on assets as at the valuation date with our current expectations as at 31 December 2020. Allowing for no change in asset allocation, GAD's expected return on assets as at 31 December 2020 is 1.9% above CPI.

I.4 In setting the discount rate at the valuation date some allowance was included for the higher future investment returns expected by the scheme's investment advisers. As at end of September 2020, the expected future returns of GAD and the investment advisers were more closely aligned at CPI+2%. Assuming that our expectations remain aligned, a discount rate set under market conditions as at 31 December 2020, might therefore be around CPI+2% which is 0.5% lower than at the valuation date.

I.5 Based on a market value of assets provided by the scheme's investment advisers, the value placed on assets as at 31 December 2020 was £42.7m.

I.6 We have estimated the funding position as at 31 December 2020, by rolling forward the scheme liabilities from March to December 2020 and comparing this with the market value of assets. The actuarial liability as at 31 December 2020 has been estimated by rolling forward the actuarial liability as at 31 March 2020 as follows:

I.7

> apply interest to the starting liabilities

> add benefits accrued over the period to 31 December 2020

> allow for expected cash flows over the period to 31 December 2020

> allow for the impact of the lower discount rate as at 31 December 2020

I.8 Based on the above approach, we estimate that the funding position as at 31 December 2020 would be around 104% compared with 97% as at 31 March 2020.

I.9 We estimate that the scheme's current funding position has improved since the valuation date. I am therefore content that the employer contribution recommendation of 19.9% based on the full calculations at the valuation date remains adequate.

I.10 There remains a great deal of uncertainty on the impact of COVID19 both in the short-term and longer term. Our review has considered impacts arising from changes in the market value of the scheme assets and expectations regarding future investment returns only. It makes no allowance for the potential impact on other assumptions such as future mortality rates or long term salary growth.

I.11 The current population mortality projections make no specific allowance for the impact of Covid-19 or any other future pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether Covid-19 changes the long-term view of life expectancy in the UK.

I.12 The long-term salary assumption is set by taking actuarial advice and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The long term rate of salary growth in excess of CPI has been reduced to 1.75% for this valuation, from 2% at the 2017 valuation, which takes some account of possible reductions to salary increases in the short term as a result of the Covid-19 pandemic.

I.13 The Trustees should note that there remains a great deal of uncertainty around the impacts of COVID-19 and the implications of this for the Senedd Pension Scheme. If there are further falls in investment markets over the period to the next actuarial valuation as at 1 April 2023 or changes in member experience which may impact our views on the actuarial assumptions at that time, then the funding position could be worse than currently estimated. If the funding position has deteriorated, then it may be necessary to increase the Senedd Pension Scheme contributions with effect from April 2023.