Government Actuary's Department

The National Assembly for Wales Members' Pension Scheme

Valuation as at 1 April 2017

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Authors : Martin Clarke FIA

Contents

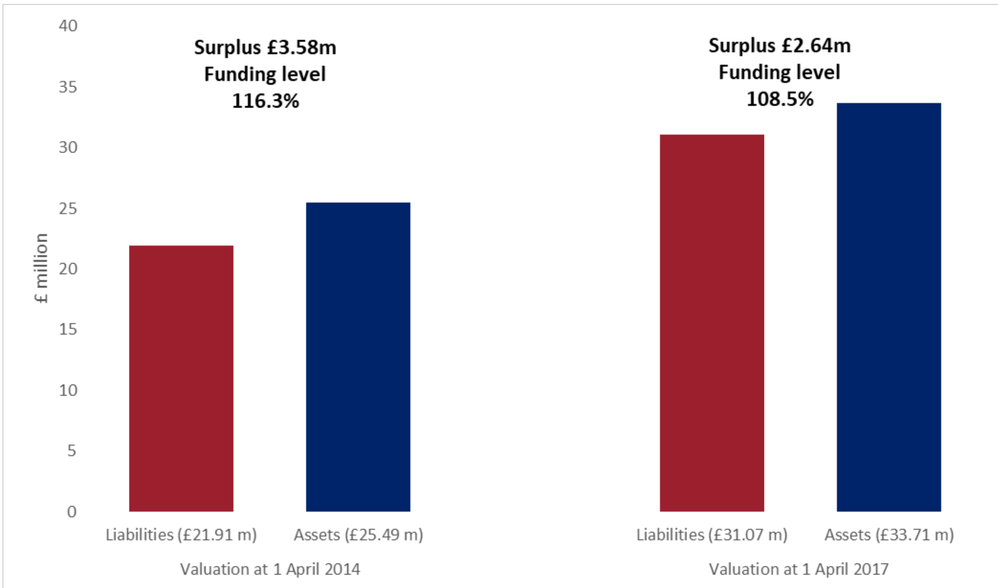
1 Summary

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

1.1 We have carried out the actuarial valuation of the National Assembly for Wales Members' Pension Scheme (NAfW MPS) as at 1 April 2017. The key conclusions from the valuation are:

1.2 **<u>Past Service assessment</u>** Based on the method and assumptions adopted for this assessment, the value of liabilities accrued up to the valuation date (including an allowance for future expenses) is assessed as £31.07 million. The market value of the assets on the same date is £33.71 million. The surplus at 1 April 2017 is accordingly £2.64 million, as set out in figure 1.1 below.

<u>Figure 1.1 – Past service funding position</u>



1.3 The Scheme's assets have increased in value due to higher than expected investment returns over the period since the previous valuation and contribution income exceeding benefit outgo. However the outlook for future investment returns at 1 April 2017 is lower than at the date of the previous valuation, which has led to a lower discount rate being used to value the Scheme's liabilities, which has in turn led to a large increase in the value of the liabilities. The net effect is that the Scheme's liabilities have increased to a larger extent than the Scheme's assets, and this has resulted in a smaller surplus than at the previous valuation.

1.4 **<u>Future Service assessment</u>** Based on the method and assumptions adopted for this assessment, the cost of benefits accruing in the NAfW MPS for each year of membership is assessed as 30.3% of pensionable payroll, including an allowance for scheme expenses. The Assembly's share of the cost is 19.9% of pay, as shown in table 1.2 below.

Table 1.2 – Contribution Rates

	1 April 2014 (%)	May 2016 (%)	1 April 2017 (%)
Standard Contribution rate (including expenses)	35.2	26.0	30.3
Average member contribution rate	9.9	10.4	10.4
Assembly's share of the Standard Contribution rate	25.3	15.6	19.9
Surplus contributions	(1.5)	-	-
Assembly contribution rate	23.8	15.6	19.9

1.5 The Assembly's share of the standard contribution rate was assessed as 25.3% of pay at the 2014 valuation and, following discussions with the Trustees, our recommendation was for the Assembly contribution rate to continue at its previous level of 23.8% of pay, due to the presence of the surplus in the Scheme.

1.6 From 6 May 2016 a new benefit structure was introduced and the cost of benefits accruing in the Scheme was reassessed, with the Assembly's share of the cost reducing from 25.3% of pay to 15.6% of pay due to the changes made to the benefit structure. Following discussions with the Trustees, the recommendation was for the full rate of 15.6% to be paid.

1.7 As discussed in paragraph 1.3, the outlook for future investment returns is lower at the 2017 valuation than at the previous valuation, which has led to a lower discount rate being used to calculate the standard contribution rate, which has led to an increase in the cost of benefits accruing in the Scheme compared to that calculated in 2016 following the changes to the Scheme's benefit structure.

1.8 The presence of the surplus in the Scheme gives options for determining the Assembly contribution rate. The surplus would make it possible for Assembly contributions to be set at a lower rate than the full Assembly share of the standard contribution rate, as was the case following the 2014 valuation.

1.9 Another option is for the full Assembly share of the standard contribution rate to be paid, and for all of the surplus to be retained in the fund, which would act as a buffer against future adverse experience and volatility.

1.10 We have consulted the Trustees on options for the Assembly contribution rate, and their preference is for all of the disclosed surplus to be retained in the Scheme and for the Assembly's full share of the standard contribution rate to be paid. This approach is not inconsistent with the Scheme's funding objective, and we have been informed that the Assembly Commission and the Remuneration Board agree with this approach.

1.11 Taking account of the views of the Trustees and the other parties, our determination is for the Assembly contribution rate from 1 April 2018 to be 19.9% of pensionable payroll.

2 Introduction

2.1 **Governing Legislation** The National Assembly for Wales Members' Pension Scheme ("the Scheme") is the pension scheme for Members of the Welsh Assembly, Welsh Government ministers and other Assembly office holders. The Scheme was established by a direction made by the Secretary of State for Wales under Section 18(1)(b) and (3) of the Government of Wales Act 1998, which came into force on 5 May 1999. Section 20(4) of and Schedule 11 to the Government of Wales Act 2006 provides continuity for the Scheme.

2.2 Following the introduction of the new Career Average Revalued Earnings (CARE) benefit structure, under the CARE Pension Rules, in May 2016, the scheme is now 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.

2.3 **Benefit Provisions** The National Assembly for Wales Members' 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.

2.4 **Requirement for a valuation** 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 by the Actuary related to the position as at 1 April 2014 and this report relates to our assessment as at 1 April 2017. 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 Assembly Commission to the Scheme following the valuation.

2.5 **Previous actuarial valuation** The previous actuarial valuation was carried out as at 1 April 2014 by Martin Clarke and Ian Boonin of the Government Actuary's Department.

2.6 At the previous valuation the liabilities were assessed as being £21.91m and the market value of the assets was £25.49m; this equated to a funding level of 116.3%. The recommendation for the rate of Assembly contributions was to continue paying contributions at the existing rate of 23.8% of pay. The contribution rate was reassessed on the introduction of the CARE Pension Rules in May 2016, and the Assembly contribution rate was reduced to 15.6% of pay.

2.7 **Cost cap valuation** 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.

2.8 **Third parties reliance and liability** This report has been prepared for the use of the Trustees of the National Assembly for Wales Members' 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.

2.9 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.

2.10 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.

2.11 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 2014 valuation

3.1 **Developments since the 2014 valuation** The main changes have been:

(i) The National Assembly for Wales Remuneration Board introduced a revised, Career Average Revalued Earnings (CARE) benefit structure to take effect following the Assembly election in May 2016. Full details of the new benefit structure are set out in Appendix B.

(ii) The Remuneration Board confirmed that, in line with the Public Service Pensions Act 2013, a Pension Board should be established to replace the previous Trustee Board. The new Pension Board is made up of:

a. Two representatives nominated by Assembly members;

b. Two representatives appointed by the Assembly Commission; and

c. A professional independent Chair.

3.2 Prior to 6 April 2016 the Scheme was contracted out of the State Second Pension (S2P). This meant that the Assembly and members both paid lower National Insurance contributions, and members did not accrue S2P benefits. From 6 April 2016 contacting out ceased with the introduction of the new Single State Pension.

3.3 **Assembly contributions** The recommendation following the actuarial valuation in 2014 was that the rate of contributions payable by the Assembly should continue to be 23.8% of pensionable salaries from 1 April 2015. This allowed for a reduction of 1.5% from the full Assembly share of the standard contribution rate of 25.3% due to the presence of the surplus in the Scheme.

3.4 Following the finalisation of the new scheme rules, we provided an updated recommendation for the Assembly contribution to be payable following the introduction of the new benefit structure in May 2016, to be 15.6% of pay. This was the full Assembly share of the standard contribution rate with no reduction made.

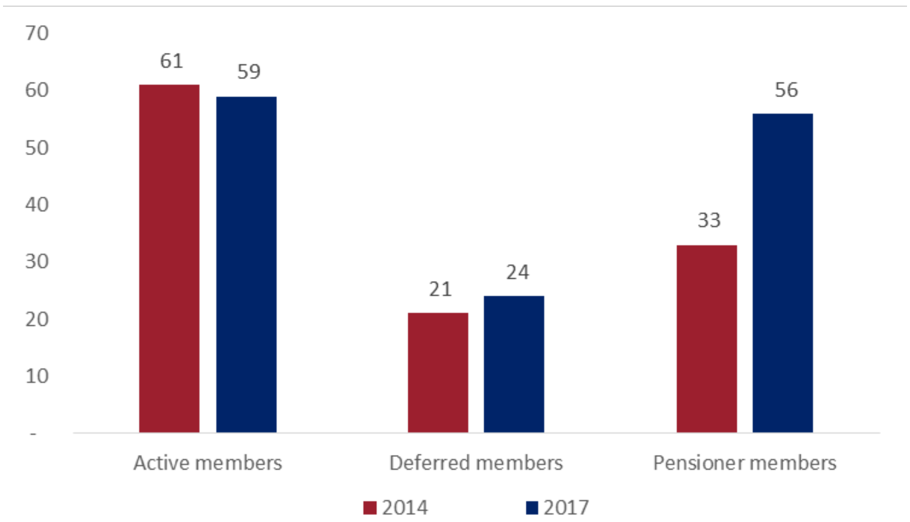
3.5 **Member contributions** Details of the member contribution rates paid are included in Appendices A and B.

4 Membership data and accounts

4.1 The data for the actuarial valuation was provided by the secretariat to the Trustees of the Scheme. In performing this valuation we have relied on the accuracy of the information provided to us. GAD has carried out reasonableness checks on the data provided and has had discussions with the Secretariat to establish the validity of the data. GAD has further checked the data for consistency with information shown in the accounts and other publicly available sources and we consider the data is sufficient for the purposes on this assessment.

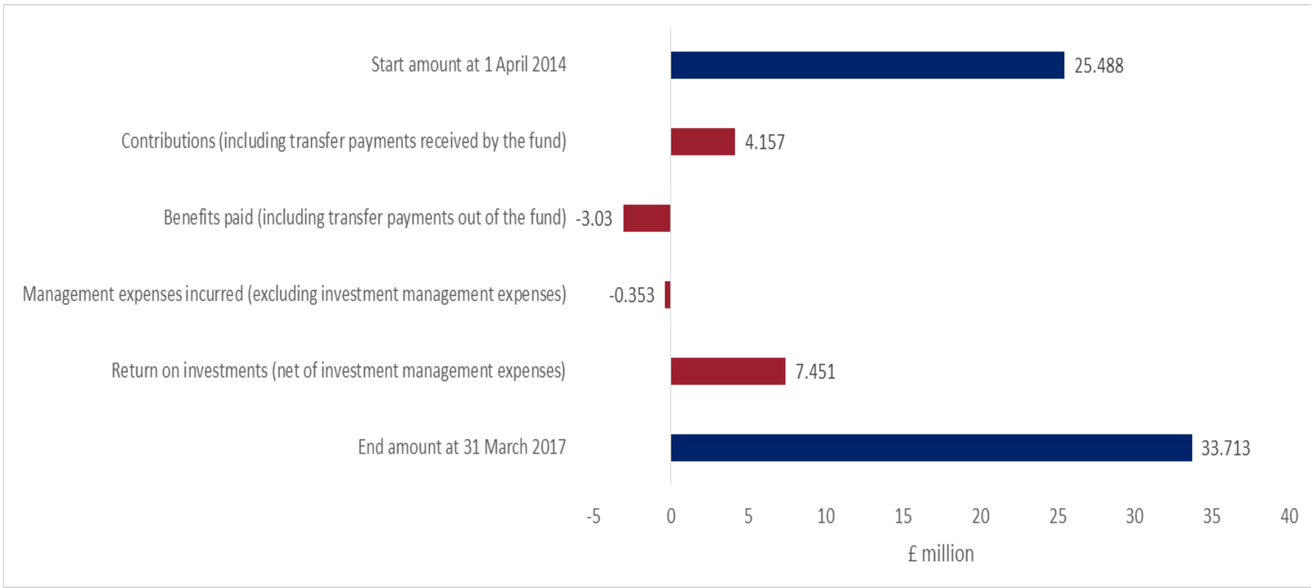
4.2 Figure 4.1 below summarises the membership numbers as at 1 April 2014 and 1 April 2017. Appendix D provides further details of the membership of the Scheme at the valuation date, and the changes in membership since 2014.

Figure 4.1 – Membership numbers



4.3 **Accounts** Taken from the published accounts, the income and expenditure of the Scheme in the three-year period from 1 April 2014 to 31 March 2017 is summarised in Appendix E. On the basis of the market value of the investments, the Scheme's assets increased over the period by £8.225 million, from £25.488 million to £33.713 million. Figure 4.2 below shows a breakdown of the increase:

Figure 4.2 - increase in Assets 2014-2017



4.4 Currently, as the fund has not reached maturity, contribution income is in excess of benefit expenditure. As the fund continues to mature, benefit expenditure can be expected to continue increasing relative to contribution income.

4.5 **Investments** Appendix F contains a summary of the underlying investment classes held by the NAfW MPS at 31 March 2017. This shows a majority of the investments (about 75% by market value) in equity shares or other return seeking assets

4.6 At the valuation date, about 46% of the total Fund was invested in the Baillie Gifford Managed Pension Fund; about 42% was invested in the Baillie Gifford Diversified Growth Fund (DGF) and about 10% was invested in the Baillie Gifford Index-Linked Pension Fund, with the rest of the Fund in cash deposits or net current assets. The bulk of the assets invested in the Managed Fund are held in equities, with the balance being in bonds and cash. The DGF invests in a wide variety of assets. Following the valuation, the Trustees have undertaken a review of their investment strategy. Details of the revised strategy are set out in Appendix F.

4.7 The investment return achieved on the scheme's assets over the three years since the last valuation was an average of 8.7% a year. However, there was some variation within the three-year period, with the percentage return achieved in each year since the last valuation being as shown in table 4.3 below.

Table 4.3 – investment returns achieved 2014-17

Period	Investment return
1 April 2014 to 31 March 2015	+10.1%
1 April 2015 to 31 March 2016	+0.2%
1 April 2016 to 31 March 2017	+16.3%

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 1 April 2017, which is £33,713,000.

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 Assembly 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 we have also had regard to experience and trends in other larger public service pension schemes.

5.2 **Demographic assumptions** Assumptions are needed on such factors as rates of mortality, retirement and withdrawal from the Assembly. 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 F.

5.3 **Pensioner longevity** The Scheme is small and so has no credible evidence to use to set the mortality assumptions. We 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 2014 valuation, the baseline mortality assumptions adopted were those adopted for the 2012 valuation of the NHSPS. 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') 2012-based UK population projections.

5.5 For the 2017 valuation, we have again adopted the same mortality assumptions as proposed for the latest valuation of the NHSPS as at 31 March 2016. Details of the mortality assumptions proposed for the NHSPS 2016 valuation are set out in Appendix G.

5.6 We have assumed future improvement in accordance with the assumptions made for the latest, 2016-based population projections of the UK. Tables 5.1 and 5.2 below compare the life expectancy of a 65 year old pensioner using assumptions adopted for the previous NAfW MPS valuation, and those adopted for the 2017 valuation. This shows a decrease in life expectancy as a result of the latest NHSPS mortality assumptions and 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 at age 65 – current pensioners

	Valuation date	
	2014	2017
Male	25.4	24.3
Female members	27.3	25.7
Widows	27.3	24.5

Table 5.2 - expectations of life at age 65 – actives and deferreds currently age 50

	Valuation date	
	2014	2017
Male	27.1	25.8
Female members	29.0	27.2
Widows	29.0	25.9

5.7 **Assembly terms** At the previous valuation, Assembly Elections were assumed to take place every five years, with the next election taking place in May 2016. We have retained this assumption for the 2017 valuation, with the next election assumed to take place in May 2021.

5.8 **Career patterns** We have adopted the same assumptions as for the previous valuation. Appendix G contains full details of the assumptions adopted.

5.9 **State Pension Age** Under the CARE Pension Rules, Normal Retirement Age is linked to State Pension Age. We have adopted the assumptions for State Pension Age as set out in The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 issued by HM Treasury[1].

5.10 These follow State Pension Age as set out in legislation up to and including changes introduced by Pensions Act 2014 but do not allow for any further changes under the review mechanism set out in that Act.

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

[1] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism

Table 5.3 – financial assumptions

	1 April 2014	1 April 2017
Gross rate of return (or discount rate)	5.8%	4.65%
Earnings increases	4.25%	4.1%
Price/pension increases (CPI)	2.25%	2.1%
Real rate of return, net of earnings increases	1.5%	0.5%
Real rate of return, net of price/pension increases	3.5%	2.5%

5.12 **Discount rate** 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 2014 valuation used a discount rate of 3½% a year (in excess of CPI).

5.13 Table 5.4 below shows the proportion of the Scheme's assets in different asset classes at the valuation date together with the return in excess of CPI that would be expected to be achieved on those asset classes as at the valuation date. These represent GAD's view of the best estimate returns on the different asset classes invested in by the Scheme at the valuation date.

Table 5.4 - Assets at 1 April 2017

Asset class	Total fund	Expected return in excess of CPI at 1 April 2014	Expected return in excess of CPI at 1 April 2017
Equities	33%	4.5%	3.75%
DGF	42%	3.5%	2.75%
Bonds *	20%	2.0%	0.4%
Cash and net current assets	5%	1.05%	-0.55%

* This is the expected return assumption on investment grade corporate bonds. The expected return on Government bonds is lower, and the expected return on high yield bonds is higher.

5.14 Over the inter-valuation period, interest rates have fallen to historically low levels, with the yield on bonds falling, and equity prices being currently at very high levels, the expected future return on equities (and the DGF) has fallen over the inter-valuation period.

5.15 Considering the Scheme's investment strategy and the return expected on the assets held at the valuation date, the expected return on the Scheme's investments is around 2½% a year in excess of CPI. An assumption of 2½% a year above CPI is therefore an appropriate best estimate assumption for the NAfW MPS as at 1 April 2017. This is also consistent with the approach adopted to setting the financial assumptions for the previous valuation.

5.16 The Scheme is currently undertaking a review of its investment strategy, and the revised strategy is set out in Appendix F. We are satisfied that the overall expected return at the valuation date from the revised investment strategy is at least as high as that on the assets held at the valuation date.

5.17 **Price inflation** The Scheme provides benefits linked to Consumer Prices Index (CPI) inflation. However, there is no significant market in CPI linked securities from which to derive an assumption for CPI. It is therefore necessary to estimate future CPI inflation by deriving an assumption for Retail Price Index (RPI) inflation and to consider the expected gap between RPI and CPI.

5.18 The assumed rate of RPI inflation is determined by comparing the yields on fixed-interest gilts with the yields on index linked gilts and allowing for any inflation risk premium in the price of index linked gilts (the premium that investors are willing to pay for the inflation protection provided by these gilts). As at 1 April 2017, the difference in yields, over a period consistent with the duration of the Scheme's liabilities, was 3.25% per annum. Therefore, our best estimate of future RPI inflation as at 1 April 2017 is 3.25% per annum.

5.19 Historically CPI inflation has been lower than RPI inflation as a result of the methods used to calculate the statistics and variations in the components included within each calculation. Based on historic analysis and analysis by ONS and other commentators, our current best estimate of the long term difference between RPI and CPI inflation is 1.15% a year. Allowing for an RPI assumption of 3.25% per annum, this makes the CPI assumption 2.1% per annum.

5.20 **Pension increases** 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 2.1% per annum.

5.21 **Nominal investment return** The combination of a return in excess of CPI of 2.5% and CPI inflation of 2.1% produces a nominal rate of investment return of 4.6% pa.

5.22 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 with final salary benefits remain active members) and CPI inflation (once a member has left service and for CARE benefits).

5.23 **Pay increases** 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 2% pa in excess of CPI, which is the same assumption as adopted for the 2014 valuation.

5.24 **Expenses** 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 £½m was also set aside from the surplus for expenses. Expense levels over the inter-valuation period were around 2.5% of payroll. The high level of expenses during the inter-valuation period was largely due to work in relation to the introduction of the CARE Pension Rules, and expenses are expected to be lower going forwards.

5.25 The expense reserve of £½m was set aside when a surplus arose at a previous valuation. As there is also a loading on the Assembly contribution rate to cover the Scheme's expenses, the reserve is designed for exceptional expenses, such as those that have occurred over the past few years in relation to the introduction of the CARE Pension Rules. As there remains a surplus in the Scheme, following discussions with the Trustees it has been agreed to continue the practice and maintain the expense reserve at its previous level.

5.26 For the 2017 valuation we have therefore retained the expense allowance of £½m (and retained the 1% addition to the contribution rate). The costs of investment management are implicitly taken into account in determining the rate of return on investments assumed for this valuation.

6 Valuation result – 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.

6.2 **Past Service assessment** 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:

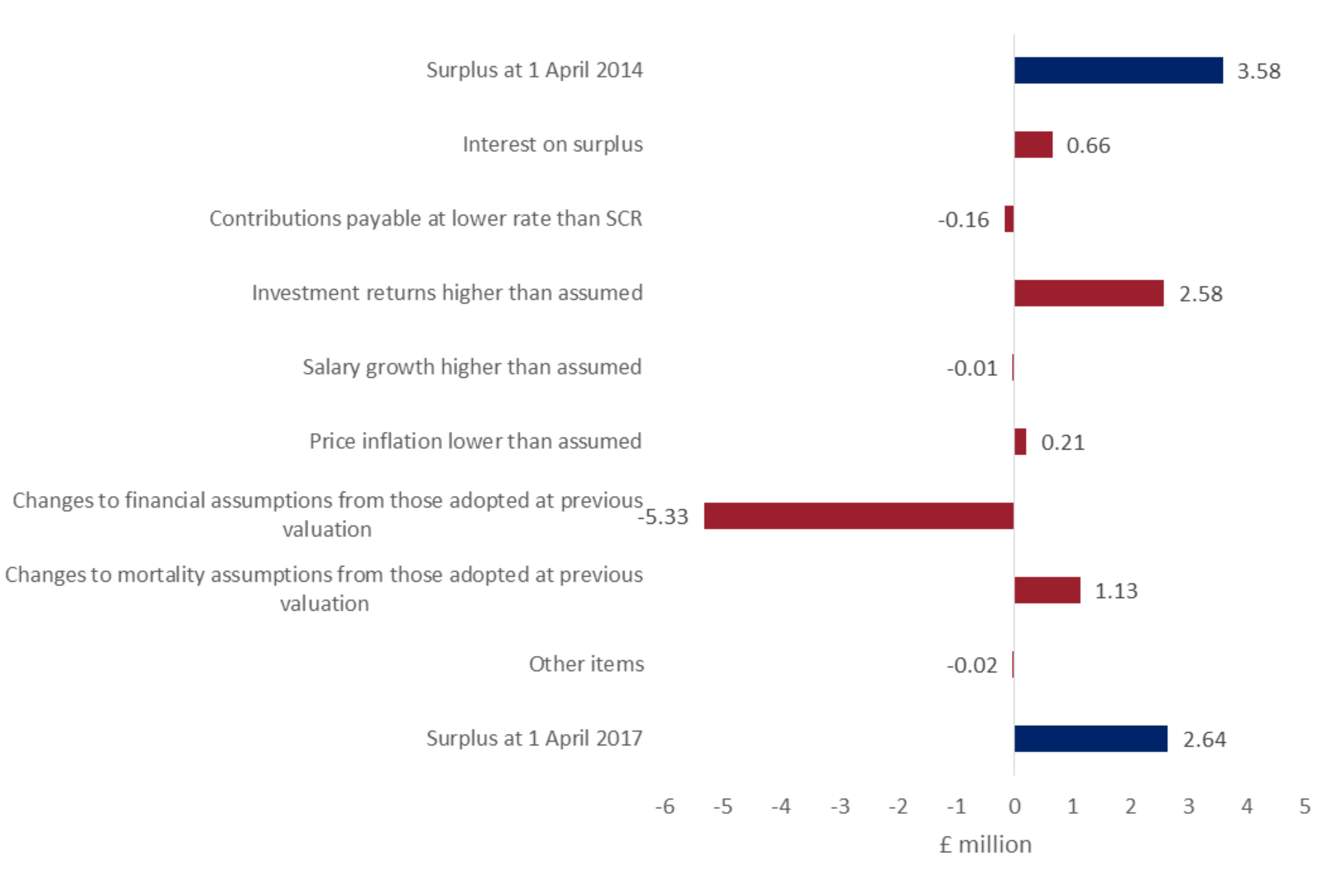
Table 6.1 - valuation statement as at 1 April 2017 – Past Service

		Value at 1 April 2017 *(£ million)*
	Current members – service up to 1 April 2017:	
(1)	(a) Assembly Members	11.66
(2)	(b) Office holders	1.07
	Members with deferred benefits:	
(3)	(a) Former members	5.35
(4)	(b) Former office holders who are still AMs	0.96
	Pensions in payment:	
(5)	(a) Pensioners	11.15
(6)	(b) Surviving dependants of former members	0.38
(7)	**Total liabilities for benefits = (1) to (6)**	30.57
(8)	Reserve for administration expenses	0.50
(9)	**Actuarial liability = (7) + (8)**	**31.07**
(10)	**Value of assets**	**33.71**
(11)	**Excess of assets over liabilities = (10) – (9)**	**2.64**
(12)	**Ratio of assets to liabilities = (10) / (9)**	**108.5%**

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 £12.73 million (rows (1) and (2) above), is slightly larger than the liability in respect of former members and dependants in receipt of pension at £11.53 million (total of rows (5) and (6) above). The aggregate liability for accrued benefits of current members at the valuation date is 42% of the total liability, whereas 58% relates to former AMs and office holders, including deferred members, (38% pensioners and 20% deferreds). The liability profile is expected to continue to mature for the foreseeable future.

6.4 **Analysis of surplus** The result of the valuation shows a move from a surplus of £3.58 million to a surplus of £2.64 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 2014-2017



7 Valuation result – Contribution requirement

7.1 **Future Service assessment** The cost of benefits accruing for future service is assessed by means of the *Standard Contribution Rate*, as described at paragraph C.6 in Appendix C. The *Standard Contribution Rate* calculated on the actuarial assumptions set out in section 5 of this report is 30.3% for AMs and office holders combined (including the allowance of 1% for scheme expenses).

7.2 Contributions are payable by members at the rate set out in Appendices A and B, and as shown in table 7.1 below. Member contributions are expected to average 10.4% of pay for the remainder of the current Assembly term.

Table 7.1 – member contribution rates

Protection status	Accrual rate option	Member contribution rate
unprotected	n/a	10.5%
protected	1/40th	10%
protected	1/50th	6%

7.3 The Assembly's share of the *Standard Contribution Rate*, which is the balance of costs that would fall to be met by the Assembly in the absence of any surplus or deficiency, is assessed as 19.9% of pensionable salaries (being 30.3% less 10.4%).

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). To remove the impact of the membership ageing during an Assembly term, for this valuation the Standard Contribution Rate has been assessed assuming members are at the age they will be around the mid-point of the 2016 to 2021 term. The Standard Contribution Rate is expected to decrease once protected members, who are still accruing final salary benefits, move to the CARE Pension Rules in May 2021.

7.5 **Determination of the rate of Assembly contributions** Under Rule 20.1(b), the Actuary is required to determine the rate of Assembly contributions to the fund.

7.6 The presence of the surplus in the Scheme gives options for determining the Assembly contribution rate. The presence of the surplus in the Scheme would make it possible for Assembly contributions to be set at a lower rate than the full Assembly share of the standard contribution rate, as was the case following the 2014 valuation.

7.7 Another option is for the full Assembly share of the standard contribution rate to be paid, and for all of the surplus to be retained in the fund, which would act as a buffer against future adverse experience and volatility.

7.8 We have consulted the Trustees on options for the Assembly contribution rate, and their preference is for all of the disclosed surplus to be retained in the Scheme and for the Assembly's full share of the standard contribution rate to be paid. This approach is not inconsistent with the Scheme's funding objectives, and we have been informed that the Assembly Commission and the Remuneration Board agree with this approach.

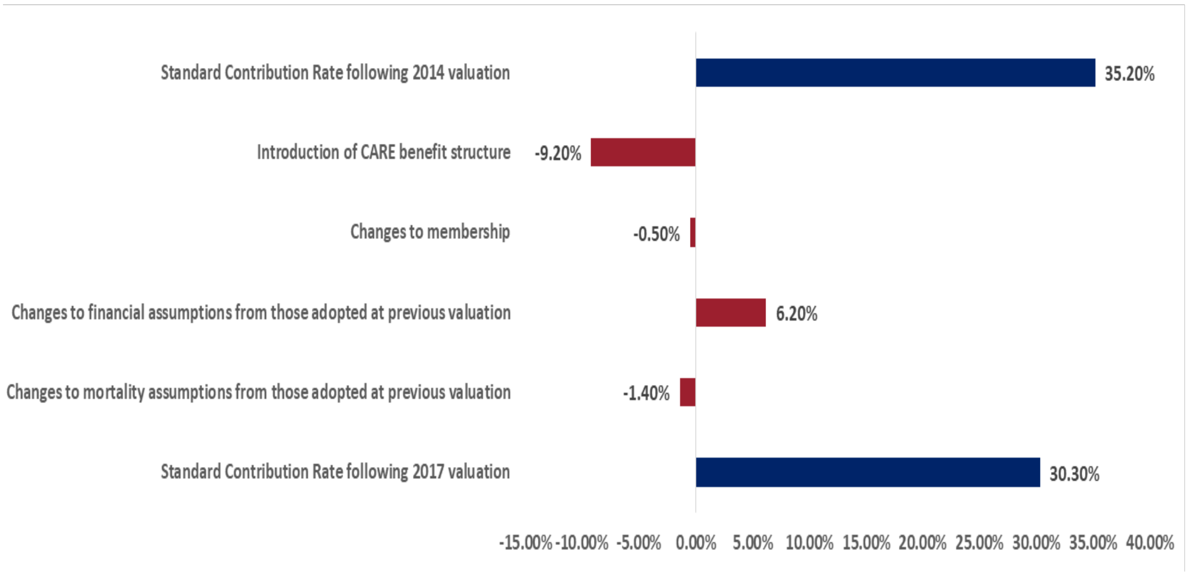
7.9 Taking account of the views of the Trustees and the other parties, our determination is for the Assembly contribution rate from 1 April 2018 to be 19.9% of pensionable payroll. Table 7.2 below compares the contribution rates in the Scheme since the 2014 valuation.

Table 7.2 – contribution rates

	1 April 2014 (%)	May 2016 (%)	1 April 2017 (%)
Standard Contribution rate (including expenses)	35.2	26.0	30.3
Average member contribution rate	9.9	10.4	10.4
Assembly's share of the Standard Contribution rate	25.3	15.6	19.9
Surplus contributions	(1.5)	-	-
Assembly contribution rate	23.8	15.6	19.9

7.10 **Analysis of change in Standard Contribution Rate** Figure 7.3 below summarises the main factors that account for the change to the Standard Contribution Rate.

Figure 7.3 - change to Standard Contribution Rate



8 Sensitivities

8.1 We 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 2017 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.)

8.2 **Future investment return** For the purposes of the valuation we have assumed that the Scheme's investments will produce future returns of 2.5% a year above the level of price inflation over the long term. The results that would have been obtained using investment yield assumptions of 0.5% per year more than or less than this are shown in table 8.1 below.

8.3 **Salary Growth** For the purposes of the valuation we have assumed that salary growth will be 2% a year above the level of CPI. The results that would have been obtained using a salary growth assumption of 0.5% per year more than or less than this are shown in table 8.1 below.

8.4 **Longevity** 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 change in the longevity assumptions of around one year is illustrated in table 8.1 below.

Table 8.1 – sensitivities to main valuation assumptions

Assumption	Adjustment made	Surplus (deficit) at 1 April 2017	Assembly share of Standard Contribution Rate	Deficit contributions (deficit spread over 15 years)
Valuation assumptions adopted	n/a	£2.6m	19.9%	-
Investment returns net of price inflation	+0.5% -0.5%	£5.3m -£0.4m	16.7% 23.5%	- 0.6%
Salary growth	+0.5% -0.5%	£2.1m £3.1m	20.1% 19.7%	- -
Longevity	1 year more 1 year less	£1.9m £3.4m	20.5% 19.3%	- -

8.5 **Sensitivity to market value changes** We have considered how the valuation results may look as at 1 April 2020, on three scenarios of investment performance in the inter-valuation period:

a) Investment return of +50% from 31 March 2017 to 31 March 2020

b) Investment return in line with the valuation assumptions (4.6% pa)

c) Investment return of -20% from 31 March 2017 to 31 March 2020.

8.6 We have combined each of these three scenarios with the variant assumptions on the long-term investment return described earlier in this report, to give nine indicative valuation results as at 1 April 2020. These are shown in table 8.2 below.

Table 8.2 – sensitivity to result of 2020 valuation

Return in inter-valuation period	Assets up by 50%			Markets in line with assumptions			Assets fall by 20%		
Net discount rate	**3%**	**2.5%***	**2%**	**3%**	**2.5%***	**2%**	**3%**	**2.5%***	**2%**
Surplus (Deficit) (£m)	18	15	12	6	3	(1)	(6)	(9)	(13)
Assembly share of Standard Contribution Rate	17%	20%	23%	17%	20%	23%	17%	20%	23%
Deficit Contribution Rate	-	-	-	-	-	2%	9%	13%	17%

*This is the valuation assumption

8.7 In calculating the figures above we have made a number of assumptions as follows:

a) Other than investment return, all of the other assumptions are those adopted for the 2017 valuation and experience over the inter-valuation period is assumed to be in line with those assumptions

b) Assembly contributions are assumed to be 19.9% of pay with effect from 1 April 2018 to 31 March 2020

c) Any deficit as at the 1 April 2020 valuation is assumed to be amortised over a period of 15 years

d) We have not attempted to carry out a full valuation of the Scheme as at 1 April 2020, rather we have rolled forward the results as at 1 April 2017 in an approximate manner.

9 Determination

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 Assembly Commission. We have completed the actuarial valuation of the NAfW MPS as at 1 April 2017, using the methodology and actuarial basis described in this report, and the determination we are required to give under the Rules is set out in paragraph 9.2 below.

9.2 Our determination is that the Assembly's contributions payable from 1 April 2018 should continue to 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

Report reissued 15 July 2020

Appendix A: Summary of the main provisions of the Scheme as at 1 April 2017 for protected members

A.1 Assembly Members 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 AMs, 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 AMs or office holders. Pensions may be paid before age 65 in the following circumstances:

- For members who joined the Scheme before 6 April 2006, accrued pensions may be paid from age 60 where service (including non-concurrent service as an MP or MEP) exceeds 20 years, and from an age between 60 and 65 where service up to 6 May 2010 is between 20 and 15 years.
- Abated pensions may be payable from earlier ages to members aged 50 or over for members who joined the Scheme before 6 April 2006, and age 55 or over for those who joined the Scheme after that date.

A.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 upper tier 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 2017 for non-protected members

B.1 All serving Assembly Members 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 AMs or office holders. Abated pensions may be payable from earlier ages to members aged 55 or over.

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

C.1 **Funding Objective** The principal objective is to maintain a fund of assets which is expected to be sufficient to provide the benefits promised to members and their beneficiaries. This objective is as advised by the Trustees of the Scheme, taking into account advice from the Actuary.

C.2 Another important aim as advised is to ensure that accruing benefits are paid for during members' participation in the NAfW MPS and that the charges borne by the Assembly for accruing benefits are reasonably stable over time. These objectives are addressed by determining a contribution rate expressed as a level percentage of pensionable salary called the Standard Contribution Rate. This standard rate is such that it would be just sufficient to finance the benefits under the Scheme, provided that experience is in accordance with the actuarial assumptions made. Depending on the size of the accumulated fund and the actual experience of the Scheme as disclosed at each three-yearly actuarial valuation, larger or smaller contributions may have to be paid for a period to allow, in particular, for amortising surpluses and deficits.

C.3 **Valuation method** For this valuation, we have retained the same valuation method as was adopted for the previous valuation as at 1 April 2014. 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.

C.4 **Actuarial liability** Under the Projected Unit Method, the Actuarial Liability is the sum of the liabilities in respect of pensions already in payment, deferred pensions for former members, and the value of benefits accrued for sitting Assembly Members and office holders in respect of service prior to the date of the valuation. These liabilities include the value of any pension rights transferred into the NAfW MPS from other pension arrangements. The liability in respect of active members is assessed by summing the discounted present value of the benefits accrued to the valuation date. 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. The value of the assets held in the fund can then be compared directly with this Actuarial Liability.

C.6 **Standard Contribution Rate** The Standard Contribution Rate is the rate of contributions which would need to be paid in order to meet the cost of pension benefits accruing over a defined period ("the control period"), if there were no surplus or deficiency in the Scheme. A one-year control period has been used. The Standard Contribution Rate, expressed as a percentage of pensionable payroll, is obtained as the discounted value of the pension benefits accruing during the control period, divided by the value of the pensionable earnings of members during the same period. If the actuarial assumptions are borne out in practice, the Standard Contribution Rate should be just sufficient to meet the cost of benefits accruing.

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 an Assembly Election if a number of older members retiring were to be replaced by younger members. To remove the impact of the membership ageing during an Assembly term, members are valued at the age they will be at the mid-point of the 2016-21 term.

C.8 **Required contribution rate** The required contribution rate is obtained by reducing (or increasing) the Standard Contribution Rate to reflect any surplus (or deficiency) between the value of the assets and the value of the Actuarial Liability. The period over which the contribution rate should be adjusted would depend on a number of factors including the extent of the surplus (or deficiency).

C.9 **Office holders** Office holders pay supplementary contributions on their pensionable salary as an office holder. In most cases, AMs will be office holders for only part of their service as an AM. The valuation method adopted for office holders is again the projected unit method. The Actuarial Liability is calculated for benefits in respect of service given before the valuation date, and the Standard Contribution Rate is calculated as sufficient to cover the liabilities accruing in respect of future service. When pensions accrued as on office holder come into payment, they are aggregated with pensions accrued as an Assembly Member (where applicable), and so are not shown separately in the valuation results.

C.10 **Going concern** The valuation method described above deals with the position of the Scheme on the basis that it will continue. We have not considered the position on winding up the Scheme as we understand that the benefit levels are effectively guaranteed by the legislation and do not depend specifically on the amount of accumulated assets. The Rules contain no provisions to determine the wind up or discontinuance of the Scheme.

Appendix D: Membership at 1 April 2017

Table D1 – Membership as at 1 April 2017

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

Some members appear in more than one category

Table D2 – Movement of active members 2014-17

Numbers	
Number of contributing members at 1 April 2014	61
New Members	
Members elected 2014-2017	24
Leaving Members	
Members retiring from the Assembly 2014-2017	16
Members leaving the Assembly with deferred benefits 2014-2017	10
Number of contributing members as at 1 April 2017	**59**

Appendix E: Consolidated revenue account for the period 1 April 2014 to 31 March 2017

Table E1 - Consolidated revenue account for the period 1 April 2014 to 31 March 2017

	£'000	£'000
Balance at 1 April 2014		**25,488**
Income over period from 1 April 2014 to 31 March 2017:		
Assembly regular contributions	2,665	
Member regular contributions	1,263	
Member purchase of added years	27	
Transfers in	203	
Total income (excluding interest)		**4,157**
Expenditure over period from 1 April 2014 to 31 March 2017:		
Retirement benefits	2,085	
Transfers out	225	
Professional fees and administration costs	353	
Total expenditure		**3,383**
Interest on cash deposits and change in market value of investments over period from 1 April 2014 to 31 March 2017:		**7,451**
Balance at 31 March 2017		**33,713**

Appendix F: Analysis of the investments of the Scheme

Table F1 – investment of the scheme as at 31 March 2017

Type of asset	Value at 31 March 2017 £ '000	Distribution of fund assets at 31 March 2017 *(%)*
UK equities	3,774	11.2%
Overseas equities		
North America	2,649	7.9%
Europe	2,545	7.5%
Asia Pacific	1,619	4.8%
Emerging Markets	493	1.5%
Total overseas equities	7,305	21.7%
Diversified growth fund	14,213	42.2%
Bonds	6,660	19.8%
Cash & deposits	1,328	3.9%
Current assets and liabilities	431	1.3%
Total assets of the Scheme	**33,713**	**100.0%**

Figures may not total exactly due to rounding

Table F2 – Revised investment strategy

Type of asset	Proportion of fund
Diversified growth fund	35%
Absolute return	15%
Equity	25%
Private markets	10%
Property	5%
Index linked gilts	10%

Appendix G: Assumptions

<u>Demographic assumptions</u>

<u>Table G1 – mortality assumptions for 2017 valuation</u>

Members	Mortality table
Males (retirements in normal health and dependants)	83% of S2NMA SAPS (normal health males amounts) U=2017
Females (retirements in normal health)	85% of S2NFA SAPS (normal health males amounts) U=2017
Female dependants	100% of S2NFA SAPS (normal health males amounts) U=2017
Male (ill-health pensioners)	83% of S2IMA SAPS (ill-health health males amounts) U=2017
Females (ill-health pensioners)	85% of S2IFA SAPS (ill-health health males amounts) U=2017

<u>Note:</u> The SAPS S2 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 S2NA tables with future improvements broadly in line with population improvements to 2016 and in line with the 2016-based principal population projections thereafter.

<u>Assembly terms</u> Assembly Elections are assumed to take place every five years, with the next election taking place in May 2021.

<u>Career patterns</u> 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.

<u>Table G2 Turnover assumptions for protected members</u>

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

Turnover assumptions for members not entitled to protection who would be expected to have the majority of total service on the revised benefit structure, are shown in table G3 below.

Table G3 – Turnover assumptions for unprotected members

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

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

Age at valuation date	Average expected age of leaving the Assembly
40	55
50	61
60	65
70	74

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 2014 and 2017 valuations

	1 April 2014	1 April 2017
Gross rate of return	5.8%	4.65%
Earnings increases	4.25%	4.1%
Price/pension increases (CPI)	2.25%	2.1%
Real rate of return, net of earnings increases	1.5%	0.5%
Real rate of return, net of price/pension increases	3.5%	2.5%