

**THE NATIONAL ASSEMBLY FOR  
WALES MEMBERS'  
PENSION SCHEME**

**Report by the Government Actuary  
on the  
Actuarial Valuation as at 1 April 2002**

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To: **The Chair of House Committee**  
**The Trustees of the Pension Fund**

## 1. Introduction

- 1.1 Section S2(2) of the National Assembly for Wales Members' Pension Scheme Rules 1999 (as amended) ("the Rules") requires the Government Actuary to make a report on the general financial position of the National Assembly for Wales Members' Pension Scheme ("the Scheme") at least every three years. The Trustees have requested that the first full actuarial valuation of the Scheme since its commencement on 7 May 1999 should be carried out as at 1 April 2002, and I am pleased to submit my report on this valuation. This report gives an assessment of the financial position of the Scheme as at 1 April 2002, together with my recommendation as to the contributions to be paid by the National Assembly for Wales ("the Assembly") to the Scheme following the valuation.
- 1.2 **Governing Legislation.** 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. For practical purposes, the Scheme took effect from 7 May 1999 – the date on which the Assembly came into being.
- 1.3 The rules of the Scheme prescribe the level of benefits and the circumstances in which the benefits will be payable to former Members and their dependants, and the rate of contribution payable by persons who participate in the Scheme. Section S3(b) of the Scheme rules requires the Actuary to recommend the rate of contribution that should be paid by the Assembly following each actuarial valuation.
- 1.4 An initial actuarial assessment of the expected cost of providing benefits was made with an effective date of 7 May 1999 (at which the value of both the Scheme assets and its accrued liabilities were zero). It was recommended that contributions from the Assembly should initially be set at 18.5% of pensionable payroll to meet the expected cost of liabilities accruing from that date. The main purpose of this first full valuation is to assess the relative levels of the assets and liabilities that have built up in the Scheme since its inception, and to make a recommendation on the future rate of Assembly contributions.
- 1.5 This report has been prepared in accordance with the requirements of Guidance Note GN9 issued by the Institute and Faculty of Actuaries.

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## 2. Scheme Benefits and Contributions

- 2.1 **Benefits.** The rules of the Scheme prescribe the benefits payable in respect of Assembly Members and Office Holders. The Scheme provides benefits to Members (and their dependants) payable on retirement, ill health, death or withdrawal. Members are entitled to benefits based on their salary near retirement, in the form of a pension of 1/50<sup>th</sup> of final pensionable pay per year of service. Spouses' pensions are payable at a rate equal to 5/8ths of the member's pension, broadly equivalent to 1/80th of final pensionable pay for each year of service.
- 2.2 The normal retirement age is 65, although Members have the right to take their pension from age 60, subject in some cases to a reduction for early payment dependent upon the length of qualifying service that has been completed. Assembly Office Holders accrue additional benefits based on their extra remuneration in their capacity as an Office Holder. A summary of the provisions of the Scheme as at 1 April 2002 is given in Appendix A.
- 2.3 The scheme is contracted-out of the State Second Pension ("S2P"), previously known as the State Earnings-Related Pension Scheme (or "SERPS").
- 2.4 **Contributions.** Scheme members contribute to the Scheme at a rate of 6% of pensionable pay and may also elect to pay additional contributions to purchase added years of service. The balance of the cost of providing the benefits is to be met by contributions from the Assembly, as recommended by the Actuary from time to time.
- 2.5 **Developments since 1999.** There were no significant changes made to the provisions of the Scheme between its establishment and the valuation date. However, changes have been effected since the valuation date which have been taken into account in this valuation. These changes are described in Section 6 of this report.

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### 3. Membership Statistics and Accounts

- 3.1 **Members of the Assembly.** Appendix B summarises the changes in membership of the Scheme during the period from 7 May 1999 to 1 April 2002. All 60 elected Assembly Members were contributing members at 1 April 2002, of whom 18 were Office Holders accruing additional benefits under section C2 of the Rules.
- 3.2 At 1 April 2002, none of the Assembly Members were concurrently members of the UK or European Parliament (any such members would be pensioned in the Scheme based on only one-third of the full Assembly salary). At the valuation date, the average pensionable service for Members was 3.47 years including transferred in service from other pension arrangements and added years purchased to date.
- 3.3 **Deferred Members.** At 1 April 2002, there was just one former Member who retained an interest in the Scheme in the form of an entitlement to deferred benefits.
- 3.4 **Pensioners.** During the inter-valuation period, only one pension came into payment (as a consequence of ill-health retirement), and this remained in force at the valuation date. The scheme is relatively immature, and at subsequent valuations the number of pensioners and deferred members is expected to increase.
- 3.5 **Salaries.** During the period from 7 May 1999 to 1 April 2002, the annual rate of salary for Members of Assembly increased from £34,438 to £38,000. The total pensionable payroll for Members was nearly £2.3 million at the valuation date. The total additional pensionable payroll for Office Holders was £430,000. Taking account of Office Holders, the aggregate salaries on which pensions were accruing at the valuation date was about £2.7 million.
- 3.6 **Experience.** From commencement to the valuation date, the Scheme experienced one death and one ill-health retirement. The financial strain caused by deaths-in-service can be proportionately quite significant in a relatively young scheme, and we understand that the Trustees are considering the possibility of re-insuring some or all of the risk arising from deaths-in-service with a commercial insurer.
- 3.7 **Accounts.** The income and expenditure of the Fund in the period from 7 May 1999 to 31 March 2002 are summarised in Appendix C, based on the audited accounts for the three financial years included. The market value of the fund on the valuation date (based on the latest set of audited accounts) is shown as £2.1 million. Table 1 summarises the key elements in the cash flow over the inter-valuation period.

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**Table 1: Fund Growth 1999-2002**

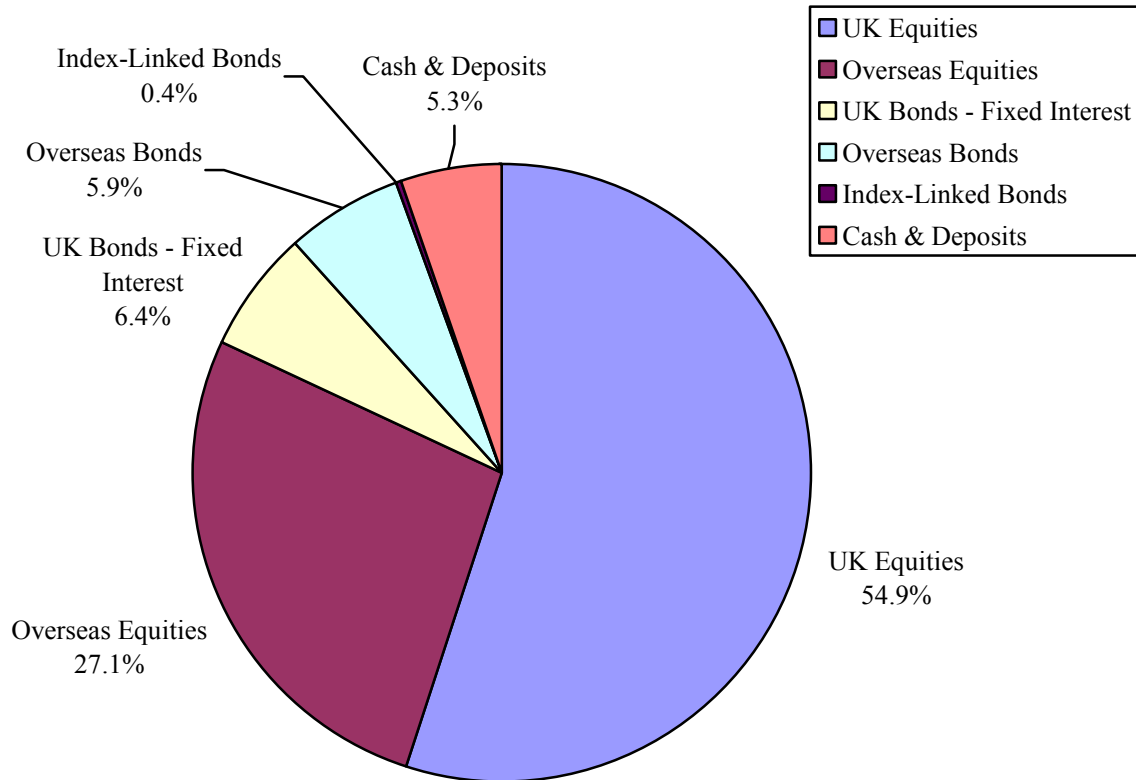
	<b>£ 000</b>
(1) Contribution Income	1,921
(2) Transfer Values received	564
(3) Interest and other investment income	10
(4) Total income = (1) + (2) + (3)	2,495
(5) Expenditure on benefits and expenses	268
(6) Net Cash Flow = (4) – (5)	<b>2,227</b>
(7) Change in Market Value of Investment	(125)
(8) Fund @ 31.3.2002	<b><u>2,102</u></b>

3.8 As would be expected for a new fund, contribution income has been substantially in excess of benefit expenditure. As the fund matures, benefit expenditure can be expected to increase relative to contribution income. Investments have contributed negatively during this period, due mainly to the very difficult conditions experienced in the capital markets since mid-2000. The bulk of the liabilities of the Fund will not fall due for many years, and it is reasonable to expect that this adverse trend will be reversed in the medium to long term.

3.9 **Investments.** Apart from a small amount of cash and net current assets, the whole of the Fund is invested in units of a pooled fund operated by one investment manager – the balanced fund of Baillie Gifford Life Limited (BGLL). At the valuation date, the Scheme held assets to the value of just over £2 million invested in the BGLL pooled fund. The investment objective of this pooled fund is to outperform CAPS median pooled fund over rolling three year periods. The distribution of assets underlying this pooled fund is depicted graphically in Chart 1. A numerical breakdown of the total Scheme assets is also provided at Appendix D.

3.10 The bulk of the assets (about 82% by market value) is held in equity type investments, with the balance being in bonds and cash. A substantial investment in equity type assets is appropriate for a relatively immature defined benefit pension scheme which is expected to continue in existence and which provides benefits linked to the level of earnings. However, as the pension scheme matures, the ratio of pensioners to active members can be expected to increase. The Trustees may therefore wish to review, from time to time, whether a large holding of equities continues to be appropriate. The value to be placed on the investments of the Fund for the purpose of the present valuation is discussed in paragraphs 5.12 to 5.14.

Chart 1 - Distribution of Assets



## 4. Funding Objective and Valuation Method

- 4.1 **Funding Objective.** The funding objective is to maintain a fund of assets which is expected to be sufficient from time to time to provide the benefits accrued to members and their beneficiaries up to that point. The aims are to ensure first that the cost of accruing benefits is met in full during the period of members' active participation in the Scheme and second that the cost met by the Assembly (in terms of regular "employer" contributions) is reasonably stable over time. These objectives are addressed by determining a contribution expressed as a level percentage of pensionable salary called the Standard Contribution Rate. This standard rate is such that it will be just sufficient to finance the benefits under the scheme as they accrue, provided that experience is in accordance with the actuarial assumptions made.
- 4.2 **Valuation Method.** In order to meet this funding objective, I consider it appropriate to adopt the Projected Unit Method of valuation, which was also adopted for the initial assessment as at 7 May 1999. Currently, it is the most common method in use for valuing occupational pension schemes in the United Kingdom. Under the Projected Unit Method, the value of the assets held in the fund is compared directly to the value of pension liabilities accrued in respect of service prior to the valuation date. For active members, this method allows for pensionable service to date, but account is taken of the expected final pensionable salary (projected forward to allow for future pay increases). The Standard Contribution Rate is the cost of the benefits that are expected to accrue in the immediate future (in this case over a period of three years), again allowing for the projected level of final pensionable salary when the member eventually leaves service.
- 4.3 **Actuarial Liability.** Under the Projected Unit Method, the *Actuarial Liability* is the sum of the liabilities in respect of pensions already in payment and deferred benefits, and those in respect of benefits accrued for current Assembly Members up to the valuation date. These liabilities include the value of any pension rights transferred into the Scheme from other pension arrangements. The liability in respect of active staff is assessed by summing the discounted present value of the benefits accrued to the valuation date, based on earnings projected to retirement, or earlier exit, and taking account of pension increases thereafter. For pensions-in-payment, a similar calculation is made, which takes into account the provision for future pensions increases in line with changes in the Retail Prices Index.
- 4.4 **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. Where actuarial valuations are carried out on a triennial basis, it is convenient to adopt a three-year period (effectively up to the date of the next actuarial valuation) as the control period. 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 projected 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 the benefits accruing over the control period. The method is such that the contribution rate should remain reasonably stable, provided that members who leave service are replaced by new entrants so that the distribution of staff in post by age and sex does not change significantly.

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- 4.5 If, in practice, the average age of the active membership rises over time, the Standard Contribution Rate could be expected to increase slightly. If the average age of the active membership falls, then the Standard Contribution Rate could also 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.
- 4.6 **Recommended Contribution Rate.** The recommended contribution rate is obtained by reducing (or increasing) the Standard Contribution Rate to reflect any surplus (or deficiency) in the value of the assets in relation to that of the Actuarial Liability. The period over which the contribution rate is adjusted would depend on the extent of the surplus (or deficiency) and should be considered in the context of the funding objective for the Scheme and the demographic profile of the membership.
- 4.7 **Office Holders.** An Office Holder who participates in the scheme will normally pay supplementary contributions on the difference between a Member's salary and the aggregate of the participant's Office Holder and Assembly salary (the "relevant" salary of the Office Holder). In most cases, Members will hold Office Holder posts for only part of their service as a Member.
- 4.8 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. Since there is no separate fund for Office Holders' benefits, these liabilities are aggregated with those for "normal" benefits, and a common Standard Contribution Rate is determined.
- 4.9 **Discontinuance.** The valuation method described above deals with the position of the scheme on the basis that it will continue. I have also made an assessment of the financial position of the scheme, if it were to close to new members and if further accrual of benefits for existing members ceased.
- 4.10 **Minimum Funding Requirement and Surplus Test.** It is our understanding that the Scheme is exempt from the Minimum Funding Requirement introduced with effect from 6 April 1997 by the Pensions Act 1995. Furthermore, because tax relief for the Scheme is provided by a different mechanism, there is no need to verify whether or not there is an "excessive" surplus in accordance with the actuarial assumptions prescribed by the Inland Revenue for tax-exempt funding purposes.



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## 5. Actuarial Assumptions

- 5.1 In order to derive the present value of benefits already accrued and benefits accruing over the next three years (and hence the *Actuarial Liability* and *Standard Contribution Rate*), it is necessary to make a number of assumptions. Future expenditure on benefits needs to be compared with future income from contributions and from the returns likely to be achieved by investing those contributions and the assets held in the fund. In assessing the expenditure on benefits, it is necessary to allow for the probability of the occurrence of each event giving rise to benefit and the length of time that the pension benefits will continue to be paid once the member has left the scheme. Assumptions therefore have to be made in relation to both *financial* aspects of the pension scheme and the *demographic* aspects of the scheme membership.
- 5.2 **Financial Assumptions.** The scheme can expect income and outgo to occur over a very long period in the future. The financial assumptions should therefore represent a long-term view of expected future conditions. It is important not give too much weight to short-term factors, such as the substantially unfavourable returns achieved by the fund over the past two years, due to a significant fall in market values.
- 5.3 One critical assumption is the rate of return expected to be achieved on the assets of the Scheme. In order to ensure that the assets and liabilities are valued consistently, this rate is also that used to discount to the valuation date the projected future benefit expenditure of the scheme. However, increases in pension benefits are awarded under the Pensions (Increase) Acts and are therefore linked to increases in the Retail Prices Index, and benefits awarded at retirement are related to the level of Members' salaries at that time. The most important financial assumptions therefore relate to the expected excess of the return on the Scheme's investments over the rates of increase in earnings and prices. The valuation result is much more sensitive to these assumed "real" rates of investment return (ie relative to wage and price inflation) than to the absolute levels of the assumed rate of return on investments or of inflation.
- 5.4 The financial assumptions adopted for the initial assessment of the contribution rate were that, in the long term, investment yields would exceed general increases in earnings by 2% a year, and price increases by 3.5% a year. These assumptions have been retained for this valuation. The long term assumption for the gross investment return has been set at 7% a year. This is lower than the 8% a year assumed at the initial assessment, reflecting lower nominal interest rates and lower inflation expectations since 1999. The main financial assumptions for this valuation are summarised in Table 2.

**Table 2: Financial assumptions for valuation**

Gross Rate of Investment Return	7% pa
Real Rate of Return, net of Earnings increases	2% pa
Real Rate of Return, net of Price/Pension increases	3.5% pa

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- 5.5 **Demographic Assumptions.** For the valuation, assumptions are needed on such factors as rates of mortality, retirement and withdrawal. Where possible, the past experience of the scheme is used as a guide. However, as the Scheme is too small for the experience to be statistically significant enough to derive the demographic assumptions, we have also had regard to experience and trends in other larger schemes. In considering the appropriateness of the assumptions for an actuarial valuation, it is important to have regard to the long-term scenario, taking account of the likely incidence of Assembly elections. The most important aspects of the assumptions made are described below.
- 5.6 **Mortality.** For pensioners who retire on age grounds, the mortality rates assumed for the initial assessment were based on a standard set of mortality tables for pensioners, known as the “80 Series” tables (based on amounts). The tables were projected to allow for improvements in longevity since the base year of 1980. I have retained these assumptions for the current valuation as it is not necessary to make adjustments anticipating further improvements in longevity at every triennial valuation. The position will be reviewed for the 2005 valuation in the light of emerging experience.
- 5.7 The average life expectancy (after retirement) implied by the assumptions adopted is shown in Table 3, for Members retiring in normal health at age 60 or 65.

**Table 3: Assumed life expectancy at retirement**

Retirement at age	Remaining Life Expectancy (years)	
	Males	Females
60	21.5	25.7
65	17.4	21.3

- 5.8 Those who retire on ill-health grounds tend to be subject to heavy mortality in the early years after retirement. Subsequently, as the period since retirement increases, ill-health pensioners' mortality tends to converge towards a level closer to that of age-pensioners. I have hence used slightly heavier average mortality rates for this group of pensioners.
- 5.9 **In Service.** The turnover rates and rates of retirement (including ill-health retirement) assumed for an actuarial valuation should normally reflect the long-term incidence expected to be experienced by the scheme. However, over the next three years to the date of the next valuation, there may be significant changes in the contributing membership of the scheme, primarily due to the election expected in 2003. The rates of retirement and withdrawal in this period could, as a consequence, be significantly higher than would be expected over a period which did not include an election. In considering the appropriateness of the assumptions, it is important to have regard to the likely long-term scenario, taking account of the likely incidence of elections.
- 5.10 For the valuation, explicit assumptions have been adopted for rates of retirement on the grounds of age and ill-health, and for rates of early exit on other grounds (such as standing-down or being defeated at an election).

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- 5.11 In setting rates of early exit, account has been taken of the experience in more long-standing elected assemblies such as Westminster and of the likely effects of the future cycle of quadrennial elections. Age retirement rates have been set bearing in mind the effects on Members' likely future experience of the operation of Section H1 of the direction establishing the Scheme. Specimen assumed rates of exit by mode are set out in Table 4.

**Table 4: Assumed annual number of exits by mode per 1,000 Members**

Exact Age	Death In Service	Withdrawals	Ill-health Retirement	Age at Retirement	Age Retirement
32	0.5	30	0.3	60-62	100
42	1.4	30	0.6	63-65	150
52	5.0	15	2.4	66-68	200
62	11.6	0	5.0	69	1000

- 5.12 **Value of Assets.** It is important to place a value on the scheme's assets in a manner which is consistent with the value placed on the scheme's liabilities. Since the liabilities have been valued by discounting expected benefits at long-term average rates of return, it is appropriate that the value of assets is assessed by discounting the future stream of returns expected to be produced by the assets on assumptions which are consistent with those used for valuing the liabilities.
- 5.13 **Equity Investments.** For this valuation, I have assumed that the equity component of the fund will receive dividend income, which will grow at a slightly faster rate than price increases – on average, by ½% a year in excess of price increases for the subsequent 15 years, after which the holdings were assumed to be sold at a yield of 3%. For this purpose, the fund's holdings of UK and overseas equities are assumed to be notionally invested in the FT-Actuaries All-Share Index. Under this approach, the assets of the Scheme are taken into the valuation calculations at less than their market value at 1 April 2002.
- 5.14 **Non-equity Investments.** The fixed-interest and index-linked investments of the fund have been valued using a similar discounting process. Their market value has been re-invested in notional stocks of an appropriate type and term, and the future income and redemption proceeds on these stocks have been discounted at 7% a year, with allowance for increases in line with the assumed inflation rate of 3½% a year where appropriate. Net current assets have been taken at their face value.
- 5.15 Investment management expenses are assumed to be met from the return achieved by the manager, and the valuation rate of interest of 7% pa is taken to be net of these expenses.

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## 6. Results of the Valuation

- 6.1 It is appropriate to consider the results of the valuation in two parts. The first set of results relates to the liabilities that have already accrued for current and former members in respect of service given before the valuation date of 1 April 2002 (the Actuarial Liability). The results for this aspect of the valuation are set out in Table 5. The second set of results relates to the liabilities expected to accrue in respect of future service for current active members, and this is discussed in paragraph 6.4 below.
- 6.2 **Past Service Assessment.** The liabilities for past service and the assets of the Fund have been determined on the methodology set out in Section 4, using the actuarial assumptions described in Section 5 of this report. The results of the valuation in relation to past service liabilities are set out below:

**Table 5: Valuation Statement as at 1 April 2002**

	Actuarial Liability	Value at 31 March 2002 (£ million)
	<b>Current Members – service up to 31 March 2002:</b>	
(1)	(a) Assembly Members	1.93
(2)	(b) Office holders	0.21
	<b>Members with Deferred Benefits:</b>	
(3)	(a) Former Assembly Members	0.02
(4)	(b) Former Office Holders	0.05
(5)	<b>Pensions in Payment to Former Members</b>	0.15
(6)	<b>Total liabilities for benefits = (1) to (5)</b>	2.36
	<b>Overall Result</b>	
(7)	<b>ACTUARIAL LIABILITY = (6)</b>	<b>2.36</b>
(8)	<b>VALUE OF ASSETS</b> (see para 5.12)	<b>1.88</b>
	<b>Surplus/(Deficiency)</b>	
(9)	<b>SHORTFALL OF ASSETS TO LIABILITIES</b> = (8) – (7)	<b>(0.48)</b>
(10)	<b>FUNDING LEVEL = (8) / (7)</b>	<b>79.7%</b>

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- 6.3 The results show that, on the valuation assumptions and methodology, the scheme has incurred a shortfall of £0.48 million in the initial period of its operation, with a funding level on an ongoing basis (ratio of assets to liabilities) of just less than 80%. While a shortfall of 20% relative to liabilities may appear large, it can be rectified by a relatively small increase in the contribution rate – see paragraph 6.6 below. The factors giving rise to the deficiency are described in Section 7.
- 6.4 **Future Service Assessment.** The Standard Contribution Rate calculated using the Projected Unit Method is assessed at 24½% of pensionable pay. Taking account of the 6% rate of contribution payable by the Members, the balance of the future service cost to be met by the Assembly would be 18½% of pay. This rate reflects the value of future service benefits only (based on the Scheme rules as they stood at the valuation date) and does not take into account either the deficit in respect of past service or the benefit changes that have been implemented since the valuation date (nor does it include any allowance for the expenses of administering the Scheme). The assessed Standard Contribution Rates can be expected to remain stable if the distribution of the membership by age and salary remains broadly constant, based on a constant set of actuarial assumptions.
- 6.5 With effect from 1 November 2002, rule changes were effected increasing the lump sum on death-in-service from three times to four times annual salary, and introducing pensions to unmarried partners on the death of a member or former member. Furthermore, we understand that it has been agreed that, with effect from the valuation date, the Assembly contribution rate should include a loading to meet the expenses of administering the Scheme, in accordance with Part 7 of Schedule 1 of the Scheme rules (following the termination of the temporary arrangements under which the Assembly met the Scheme's expenses as and when they arose). After allowing for these changes, the Assembly future service contribution rate is increased to just under 21% of pay.
- 6.6 **Adjustment for Deficiency.** The contribution rate payable until the next review needs to be calculated by modifying the Standard Contribution Rate to reflect the difference between the value placed on the scheme assets for valuation purposes and the actuarial liability for past service benefits. If the whole amount by which the deficit exceeded the assets as at 31 March 2002 were spread over a period of 10 years from the valuation date, the additional contributions payable from the Assembly would be slightly over 2% of pensionable pay for this period. A period of 10 years represents just somewhat less than the average expected future membership of existing members based on the valuation assumptions. The additional contributions would serve to restore the funding level to 100% over 10 years following the valuation date, if the experience of the scheme were in line with the assumptions made.
- 6.7 Taking account of the Assembly future service contribution rate and the additional contributions required to meet the deficit, the recommended rate of contribution to be paid by the Assembly is assessed as 23% of pensionable payroll. This can be described as shown in Table 6.

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Table 6: Recommended Contribution Rate (% of relevant salaries)

	2002 Valuation
(1) Standard Contribution Rate in respect of future service	27%
(2) Amortization of 2002 deficit for past service	2%
(3) Adjusted Contribution rate effective from April 2003 = (1) +(2)	29%
(4) Members' Contribution rate	6%
(5) Assembly Recommended Contribution Rate effective from April 2003 = (3) - (4)	23%

- 6.8 Alternatively, the deficit could be spread over a shorter (or longer period) if this was considered preferable. A shorter period would give a larger percentage increase in the rate of contribution payable from the Assembly.
- 6.9 **Discontinuance Position.** An assessment of the financial position of the scheme on the assumption that it had discontinued on 1 April 2002 is assessed by comparing the assets available to the scheme at that date with the liabilities applicable to members in respect of service prior to that date. For this purpose, members in service are assumed to be entitled to deferred benefits only, which would increase in line with RPI, rather than in line with the member's salary. On this basis, the assessment showed that the scheme's assets were not quite sufficient to cover the liabilities at the valuation date, but should be sufficient in the near future if contributions are paid at the recommended rate.

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**Analysis of the Results**

- 7.1 **Valuation Result.** The result of the valuation in respect of the past service position is a deficit of £0.48 million with the ratio of assets to liabilities being just under 80%. Many factors have operated on the Scheme during this period, some positive and some negative.
- 7.2 The most important factor affecting the scheme's finances in the period up to the date of the valuation has been the unfavourable investment return. This investment shortfall comprised about three-quarters of the accrued deficiency. The level of recommended contributions made at the initial assessment, was based upon an assumption of a long term rate of return of 3½ % in excess of price increases. However, during the initial period, the investment return has been negative, both in terms of the market value return and in terms of the return on the actuarial value.
- 7.3 Other significant items of deficiency include higher than expected Members' salary increases over the inter-valuation period, and adverse experience in relation to deaths and ill-health. These sources of deficiency were partially counter-balanced by a release of reserves resulting from effective changes in the assumed future rates at which active members are expected to leave the scheme.

## 8. Recommendation

- 8.1 **Future Service.** The results of the valuation show that, on the method and assumptions described earlier in this report (and allowing for changes implemented following the valuation date), the joint Standard Contribution Rate of the scheme, before taking into account the fund deficit, is 27% of pay, of which the members pay 6% of relevant salary.
- 8.2 **Past Service.** The value of the assets falls short of the value of the liabilities accrued prior to the valuation date by £0.48 million. I recommended that the deficit to be met by additional contributions from the Assembly of 2% of pay. This is expected to be paid over the 10 years period from the valuation date.
- 8.3 **Recommended Rate of Assembly Contribution.** Under Section S3(b) of the Rules, I am required to determine the Assembly contribution required to meet the balance of the cost of the scheme, having regard to the benefits and to the contributions payable by Members. After allowing for the amortization of deficit, I recommend that the Assembly contribution payable from 1 April 2002 until the results of the next valuation are available should be at the rate of 23% of pensionable payroll.

**D G Ballantine**

**February 2003**

**Fellow of Faculty of Actuaries**



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APPENDIX A

SUMMARY OF THE MAIN PROVISIONS OF THE SCHEME

1. **Eligibility** All members elected to the National Assembly for Wales are automatically entered from date elected, but may opt-out of membership subject to certain conditions.
2. **Contributions** Contributions are required at a rate of 6% of pensionable salary from all scheme members. The Assembly contributions are paid at a rate recommended from time to time by the Actuary.
3. **Pensionable Salary** This is the basic salary, subject to Inland Revenue's 'earnings' cap. The basic salary may be abated if member is also an MP or MEP.
4. **Final Pensionable Pay** This is the pensionable salary in the last 12 months.
5. **Normal Retirement** The normal retirement age is 65 for men and women. Members receive a pension of 1/50ths for each year of pensionable service, to a maximum of 2/3rds of the earnings cap. Service while a member's salary is abated as an MP or MEP, is reduced pro-rata to the reduction in salary.
6. **Early Retirement** Pensions may be paid before age 65 in the following circumstances:
  - Full accrued pensions may be paid from age 60 where service (including that as MP or MEP) as a Member exceeds 20 years, and from an age between 60 and 65 where service is between 20 and 15 years.
  - Abated pensions may be payable from earlier ages to Members aged 50 or over
7. **Ill-health Retirement** An ill-health retirement pension may, subject to medical evidence, be awarded at any age. Ill-health pensions from the basic scheme are calculated by reference to potential service to age 65.
8. **Commutation** Members may, on retirement, commute part of their pensions for a lump sum that is actuarially equivalent in value to the amount of pension given up.
9. **Death in Service Benefits** If a Member dies in service, the following benefits are payable:
  - Short-term spouse's pension: Member's full pay for 3 months
  - Long-term spouse's\* pension: Spouse receives 5/8ths of the pension that the member would have received had Member retired due to ill-health on date of death. Spouse pension ceases on re-marriage.
  - Lump Sum: 3 times pensionable salary<sup>#</sup>
  - Children's pensions are also payable where appropriate

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10. **Death in Deferment Benefits** If a Member dies during a period of deferment, the following benefits are payable:
  - Spouse's\* pension: 5/8ths of the Member's pension
  - Children's pensions are also payable where appropriate
  
11. **Death in Retirement Benefits** If a member dies while retired, the following benefits are payable:
  - Short-term spouse's pension: full rate of the Member's pension or the long-term rate if greater
  - Long-term spouse's\* pension: 5/8ths of the Member's pension, ignoring any reduction for commutation of a lump sum
  - Lump Sum: 5 year guarantee on Member's pension.
  - Children's pensions are also payable where appropriate
  
12. **Pension Increases** Pensions in deferment are increased in line with the Retail Price Index. For pensions in payment, the excess pension over the GMP will be increased with RPI. On voluntary early retirement, pensions increases are not paid until age 55.
  
13. **SERPS/S2P** The scheme is contracted out of the State Second Pension.
  
14. **Concurrent Memberships** If a Member is also a member of the UK or the European Parliament, benefits and contributions are based on one-third of the full Assembly salary.
  
15. **Leaving Service** There is no qualifying service period for preserved benefits, as immediate vesting applies. If a Member leaves with less than 2 years qualifying service, the member may alternatively be paid a refund of his own contributions, subject to certain deductions. Members with preserved pensions are entitled to an N/50ths pension deferred to age 65, where N is the number of years of pensionable service.

**Note:**

\* Extended to partner's pension from 1 November 2002

# Four times pensionable salary from 1 November 2002

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*APPENDIX B*

**MEMBERSHIP AT 1 APRIL 2002**

**TABLE 1 - SITTING MEMBERS CONTRIBUTING TO THE SCHEME**

<b>Numbers</b>		
Number of contributing members at 7 May 1999	60	
<i>(a) <u>New Members</u></i>		
Members elected 1999-02	<u>3</u>	63
<i>(b) <u>Leaving Members</u></i>		
Members leaving the House 1999-2002:		
Deaths	1	
Retirements on pension (on ill-health grounds)	1	
Resignation	1	(3)
<b>Number of contributing Members at 1 April 2002</b>		<u>60</u>
<b>Service and Pay at 1 April 2002</b>		
Average pensionable service (years)		3.47
Average pay		£38,000
Average age		50.3

**TABLE 2 – OFFICE HOLDERS**

<b>Contributors</b>	
Number of Office Holders contributing at 1 April 2002	18
Salaries on which contributions are based	£429,624

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## APPENDIX C

CONSOLIDATED REVENUE ACCOUNT FOR THE PERIOD  
7 May 1999 TO 31 March 2002

£'000

<b><u>Balance at 7 May 1999</u></b>		<b><u>0</u></b>
<b>Income over period from 7 May 1999 to 31 March 2002:</b>		
Assembly regular contributions	1,335	
Member regular contributions	433	
Member purchase of added years	31	
Other Assembly contributions	122	
Transfers in	564	
Interest	10	
<b>Total Income</b>	<b>2,495</b>	<b>2,495</b>
<b>Expenditure over period from 7 May 1999 to 31 March 2002:</b>		
Retirement benefits	32	
Death benefits	114	
Professional fees and administration costs	122	
<b>Total Expenditure</b>	<b>268</b>	<b>268</b>
<b>Change in MV of investments over period from 7 May 1999 to 31 March 2002:</b>		<b>(125)</b>
<b><u>Balance at 31 March 2002</u></b>		<b><u>2,102</u></b>

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## APPENDIX D

## ANALYSIS OF THE INVESTMENTS OF THE SCHEME

TYPE OF ASSET	Value At 31 March 2002 £ '000	Distribution of fund assets at 31 March 2002 (%)
<b><u>Managed Fund</u></b>		
<b>UK Equities</b>	1,124	54.9
<b>Overseas Equities</b>		
North America	145	7.1
Europe	225	11.0
Japan	51	2.5
Pacific (ex Japan)	78	3.8
Other Overseas	55	2.7
	<b>1,679</b>	<b>82.0</b>
<b>Fixed Interest</b>		
UK Bonds	131	6.4
Overseas Bonds	121	5.9
	<b>252</b>	<b>12.3</b>
<b>Index-Linked</b>	<b>8</b>	<b>0.4</b>
<b>Cash &amp; Deposits</b>	<b>109</b>	<b>5.3</b>
<b>NET ASSETS OF THE FUND</b>	<b><u>2,048</u></b>	<b><u>100.0</u></b>
<b><u>Other</u></b>		
<b>Uncommitted Cash*</b>	<b>49</b>	
<b>Current Assets and Liabilities</b>	<b>5</b>	
<b>NET ASSETS OF THE SCHEME</b>	<b><u>2,102</u></b>	

Figures may not total exactly due to rounding

\* Cash with BGLL at valuation date but not yet applied to purchase units in the pooled fund.