The National Assembly for Wales Members' Pension Scheme
Valuation as at 1 April 2011

Report by the Actuary

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1 Summary

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

1.1 We have carried out the actuarial valuation of the National Assembly for Wales Members' Pension Scheme (NAfW MPS) as at 1 April 2011. The key conclusions from the valuation are:

Past Service Assessment

1.2 Based on the method and assumptions adopted for this assessment, the value of liabilities accrued up to the valuation date is assessed as £17.15 million. The market value of the assets on the same date is assessed as £18.79 million. The surplus at 1 April 2011 is accordingly £1.64 million, as set out below:

	Value at 1 April 2011 (£ million)	**Value at 1 April 2008 (£ million)**
Liabilities	17.15	11.39
Assets	18.79	11.35
Surplus (deficit)	1.64	(0.04)
Funding level (= assets / liabilities)	109.5%	99.7%

Future Service Assessment

1.3 Based on the methodology and assumptions adopted for this assessment, the cost of benefits accruing in the NAfW MPS for each year of membership is assessed as 35.3% of pensionable payroll, including an allowance for scheme expenses.

1.4 Members' contributions to the Fund are expected to average 9.8% of pensionable payroll. The Assembly's share of the cost of accruing benefits is therefore assessed as 25.5% of pensionable payroll, including an allowance for scheme expenses.

Past Service

1.5 Assembly contributions could be reduced to a level lower than the Assembly's share of the cost of accruing benefits in order to remove the surplus. Removing the surplus of £1.64m over a 15-year period would result in a reduction of 2.9% of pensionable payroll from the Assembly's share of the cost, to 22.6% of pensionable payroll. However after discussions with the Trustees it has been agreed that Assembly contributions should continue at their current level of 23.8% of pensionable payroll.

Recommended Assembly Contribution Rate

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

"Each report by the Actuary shall

(a) advise on the liabilities of the Scheme compared to its assets;

(b) recommend a contribution rate to be paid by the National Assembly for Wales (via its relevant entity) to the Scheme."

Taking into account the factors described in this report, we recommend that the Assembly contribution payable from 1 April 2012 until the results of the next valuation are available should be 23.8% of pensionable payroll.

1.7 The approach adopted to deriving the demographic assumptions has been to determine assumptions which are on the prudent side of best estimate. The financial assumptions have been adopted using an approach that is consistent with that used for the previous valuation. A draft of this report has been shared with the Trustees, and with the Remuneration Board, who have responsibility for determining AMs' remuneration, including pension provision. Both parties are content with the approach adopted.

Limitations

1.8 This report has been prepared for the Trustees of the National Assembly for Wales Members' Pension Scheme ("the Trustees"). We are content for the Trustees to release this report to third parties, provided that:

- it is released in full
- the advice is not quoted selectively or partially
- GAD is identified as the source of the advice, and
- sufficient background material is provided to put these figures into context.

1.9 Third parties whose interests differ from those of the Trustees should be encouraged to seek their own actuarial advice where appropriate.

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

1.11 In carrying out this work we have followed our normal quality processes for work conducted on public service pension matters.[1]

[1] [1] The GAD Statement of Understanding *http://www.gad.gov.uk/Documents/Occupational%20Pensions/GAD_Statement_of_Understanding_v_1.1_Dec_2011.pdf* sets out the standards which the Department currently applies for any work carried out in this area.

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 **Benefit Provisions** The National Assembly for Wales Members' Pension Scheme Rules 2006 (as amended) ("the Rules") prescribe the level of benefits and the circumstances in which the benefits will be payable to former members and their dependants. The Rules also prescribe the rate of contributions payable by persons who participate in the scheme. The main benefit provided is a pension to members from the age of 65, defined as $1/40^{th}$ or $1/50^{th}$ of final pensionable pay for each year of service, with members' contributions payable at the rate of 10% or 6% of pay respectively. Spouses' pensions are payable at a rate equal to five-eighths of the member's pension. A summary of the benefit provisions of the scheme at the valuation date is given in Appendix A.

2.3 **Requirement for a valuation** Section S2(2) of the Rules requires the Actuary to make a report on the general financial position of the Scheme at least every three years. The previous report by the Actuary related to the position as at 1 April 2008 and this report relates to our assessment as at 1 April 2011. This report gives an assessment of the financial position of the Scheme as at this date, together with our recommendation as to the contributions to be paid by the National Assembly for Wales ("the Assembly") to the Scheme following the valuation.

2.4 **Previous actuarial valuation** The previous actuarial valuation was carried out as at 1 April 2008 by Grant Ballantine of the Government Actuary's Department.

2.5 At the previous valuation the liabilities were assessed as being £11.39m and the market value of the assets was £11.35m; this equated to a funding level of 99.7%. The recommended rate of Assembly contributions was 23.8%.

3 Contributions and Developments since the 2008 valuation

3.1 **Member Contributions** During the period from April 2008 to March 2011, contributions from members were paid at the rate of 10% of pay for members who had opted for 1/40th accrual and 6% of pay for members who had opted for 1/50th accrual.

3.2 **Assembly Contributions** The recommendation following the actuarial valuation in 2008 was that the rate of contributions payable by the Assembly should be 23.8% of pensionable salaries from 1 April 2009, and Assembly contributions have been paid at this rate since 1 April 2009. From 1 April 2008 to 31 March 2009, Assembly contributions were paid at the previous recommended rate of 23% of pensionable salaries.

3.3 **Developments since the 2008 valuation** Several changes were made to the scheme, during the inter-valuation period. The main changes were:

(i) The holders of the following office holder posts are now members of the scheme:
- Government Chief Whip
- Chairs of Committees who are entitled, under any determination made under Standing Order 1.7, to an additional office-holder's salary by virtue of that office;
- Commissioners other than the Presiding Officer;
- Opposition Chief Whip provided that person also holds the office of Business Manager of the political group in question;

(ii) That at any time one of the six Trustees shall be a pensioner in so far as there are individuals willing to present themselves for nomination, selection and appointment to that role;

(iii) Following the Chancellor's Budget announcement on 22 June 2010, pension increases from public service pension schemes (including the NAfW MPS) are to be in line with the Consumer Prices Index (CPI) rather than the Retail Price Index (RPI) for both accrued and future service benefits;

(iv) An independent National Assembly for Wales Remuneration Board ("the Board") was established in September 2010. The Board has responsibility for setting Assembly Members' pay, allowances and pensions. The Board has the power to amend the Scheme, including the rules, but plays no part in management of the Scheme or its internal controls.

(v) Up until 1 April 2010, if members did not draw their full salary their pension was based on the full AM salary, though members' contributions were based on the reduced salary actually taken, and the Assembly made up the extra contributions. From 1 April 2010, if members did not draw their full salary their pension accrual would be based on a pro rata basis with no additional contributions being made by the Assembly;

(vi) Up until 1 July 2010 the Scheme's early retirement factors were included in the Rules, and changing the factors involved amending the Rules. With effect from 1 July 2010 the Scheme's early retirement factors are to be prepared by the Actuary;

(vii) The Trustees can amend the Scheme's earnings cap (the permitted maximum) to set it to be a non-increasing amount which they can review from time to time. This removed the automatic indexation that previously applied;

(viii) With effect from 1 March 2011, office holders who remain in post during dissolution have their office holder earnings treated as pensionable when they may no longer be Assembly Members;

(ix) The purchase of added years when added to anticipated reckonable service to the Scheme pension age cannot exceed two thirds of the permitted maximum.

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. We have carried out reasonableness checks on the data provided and had discussions with the secretariat to establish the validity of the data. We have 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 Appendix B summarises the membership of the scheme at the valuation date, and the changes in membership since 2008. Comments on the main changes in membership during the period from 1 April 2008 to 1 April 2011 are given below.

4.3 **Assembly Members** On 1 April 2011, there were 59 AMs who were active members of the scheme. The number of active scheme members is one fewer than the number of Assembly seats because one AM had died and not been replaced before the election. Assembly Members who are concurrently members of the UK or European Parliament are pensioned in the Scheme based on only one-third of the full Assembly salary.

4.4 The average pensionable service for AMs (including service credited from transfers in from other pension schemes and additional years of service purchased by members) increased from 6.5 years at the 2008 valuation to 10.1 years at this current valuation. The increase is more than three years due to transfers-in and purchase of added years.

4.5 An Assembly Election took place on 5 May 2011, at which 22 AMs stepped down or lost their seats, and 23 new AMs were elected, to take the total of AMs up to 60.

4.6 **Office Holders** A number of AMs also hold ministerial or other office holder positions. Details of benefits received as an office holder in the supplementary scheme are contained in Appendix A. Following the Assembly election, there were 32 ministers and other office holders who were actively participating in the supplementary scheme.

4.7 **Salaries** In the three-year period since the 2008 valuation, the annual salary for Assembly Members increased by just under 4% from £51,788 as at 1 April 2008 to £53,852 as at 1 April 2011. The pensionable payroll for AMs (excluding any salary as an office holder) was £3.15 million at the valuation date. The pensionable payroll for office holders (excluding their salary as an AM) following the election was £0.86 million, giving a total pensionable payroll for active members of the scheme of £4.01 million following the election.

4.8 **Deferred Members** On 1 April 2011, there were 14 former AMs and office holders who were not yet in receipt of pension, but who retained an interest in the scheme in the form of an entitlement to deferred benefits, generally coming into payment at age 65. This compares with 16 deferred members as at 1 April 2008. The average amount of deferred pension increased from approximately £6,400 a year to £7,200 a year, including cost of living increases up to the valuation date.

4.9 In addition to the current office holders, there were 4 former office holders, who were still Assembly Members, who had actively participated in the supplementary scheme in the past. Those AMs will be entitled to a supplementary pension when they leave the Assembly.

4.10 **Pensioners** In the inter-valuation period, the number of pensioners increased from 14 to 18, excluding the new pensions coming into payment as a consequence of the 2011 Assembly Election. These figures include pensions payable to dependants of deceased former members.

4.11 The total amount of pensions in payment increased over the inter-valuation period from £88,000 to £128,000. This reflects the increased number of pensioners and the annual pension increases awarded under the Pensions (Increase) Acts. The average amount of pension in payment was approximately £7,100 a year on 1 April 2011.

Financial Data

4.12 **Accounts** Taken from the published accounts, the income and expenditure of the scheme in the three-year period from 1 April 2008 to 31 March 2011 is summarised in Appendix C. On the basis of the market value of the investments, the scheme's assets increased over the period by £7.435 million, from £11.35 million to £18.785 million. The table below shows a breakdown of the increase:

Increase in Assets 2008-2011

	£ million	**£ million**
(1) Start amount at 1 April 2008	11.350	
(2) Contributions (including transfer payments received by the fund)		4.274
(3) Benefits paid (including transfer payments out of the fund)		0.612
(4) Management expenses incurred (excluding investment management expenses)		0.236
(5) Net cash income = (2) - (3) - (4)		3.427
(6) Return on investments (net of investment management expenses)		4.007
(7) Total increase in fund = (5) + (6)	**7.435**	**7.435**
(8) End amount 31 March 2011	**18.785**	

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

4.14 **Investments**. Appendix D contains a summary of the underlying investment classes held by the NAfW MPS at 31 March 2011. This shows a majority of the investments (about 83% by market value) in equity shares or other return seeking assets

4.15 At the valuation date, about 68% of the total Fund was invested in the Baillie Gifford Managed Pension Fund; about 20% was invested in the Baillie Gifford Diversified Growth Pension Fund (DGPF) and about 8% was invested in the Baillie Gifford Index-Linked Pension Fund, with the rest of the Fund in cash deposits or net current assets. The bulk of the assets invested in the Managed Fund are held in equities, with the balance being in bonds and cash. The DGPF invests in a wide variety of assets. Net income to the Scheme is currently being invested in the proportion of 85% in the DGPF, and 15% in the Index-Linked Pension Fund. No new money is being invested in the Managed Fund, and therefore the proportion of the scheme's assets invested in equities is currently decreasing.

4.16 The investment return achieved on the scheme's assets over the three years since the last valuation was an average of 8.4% a year. However, there was considerable variation within the three-year period, with the percentage return achieved in each year since the last valuation being as follows:

Period	Investment Return
1 April 2008 to 31 March 2009	-16.8%
1 April 2009 to 31 March 2010	+38.5%
1 April 2010 to 31 March 2011	+10.6%

4.17 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 2011.

5 Funding Objective and Valuation Method

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

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

5.3 **Valuation Method** For this valuation, we have retained the same valuation method as was adopted for the previous valuation as at 1 April 2008. This is the projected unit method, which is the most commonly used method in actuarial valuations of occupational pension schemes in the United Kingdom. Under the projected unit method, the *Standard Contribution Rate* is the cost of the benefits that are expected to accrue in the immediate future (e.g. over a one or three-year period), allowing for future salary increases to retirement. Under this method, the value of the assets held in the fund is compared directly to the "*Actuarial Liability*" which is the value of pension liabilities accrued in respect of service prior to the valuation date as below.

5.4 **Actuarial Liability** Under the Projected Unit Method, the *Actuarial Liability* is the sum of the liabilities in respect of pensions already in payment, deferred pensions for former members, and the value of benefits accrued for sitting Assembly Members and office holders in respect of service prior to the date of the valuation. These liabilities include the value of any pension rights transferred into the NAfW MPS from other pension arrangements. The liability in respect of active members is assessed by summing the discounted present value of the benefits accrued to the valuation date, based on earnings projected to retirement, or earlier exit, and taking account of pension increases thereafter. For pensions-in-payment and deferred pensions, a similar calculation is made, which takes into account the provision for future cost of living pension increases in line with changes in the CPI.

5.5 In addition to the liability in respect of benefits for members and beneficiaries, account must also be taken of any reserves required for other purposes, such as a reserve for future administration expenses. The value of the assets held in the fund can then be compared directly with this *Actuarial Liability*.

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

5.7 This rate should remain reasonably stable, provided that members who leave service are replaced by new entrants so that the distribution of active members by age and sex does not change significantly, and provided the proportion of members on each rate of benefit accrual remains broadly unchanged. If, in practice, the average age of the active membership rises over time, the *Standard Contribution Rate* could be expected to increase slightly. If the average age of the active membership falls, then the *Standard Contribution Rate* could be expected to fall. This might happen, for example, following an Assembly Election if a number of older members retiring were to be replaced by younger members.

5.8 **Recommended Contribution Rate** The recommended contribution rate is obtained by reducing (or increasing) the *Standard Contribution Rate* to reflect any surplus (or deficiency) between the value of the assets and the value of the *Actuarial Liability*. The period over which the contribution rate should be adjusted would depend on a number of factors including the extent of the surplus (or deficiency). At the previous valuation, a period of 15 years was adopted to amortise the deficit.

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

5.10 **Discontinuance** The valuation method described above deals with the position of the scheme on the basis that it will continue. We have not considered the position on winding up the scheme as we understand that the benefit levels are effectively guaranteed by the legislation and do not depend specifically on the amount of accumulated assets. The Rules contain no provisions to determine the wind up or discontinuance of the scheme. It is our understanding that the National Assembly for Wales Members' Pension Scheme is exempt from the Statutory Funding Objective which was introduced for private sector occupational pension schemes by the Pensions Act 2004.

6 Actuarial Assumptions

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

Principal Financial Assumptions

	1 April 2011	1 April 2008
Real rate of return, net of earnings increases	1.25%	2.0%
Real rate of return, net of price/pension increases	3.5%	3.5%
Index for pension increases	CPI	RPI

Principal Demographic Assumptions

Members	Mortality table
Males (active and deferred)	SAPS light (normal health males amounts) C=2035
Females (active and deferred)	SAPS light (normal health females amounts) C=2035
Male pensioners	SAPS light (normal health males amounts) U=2011
Female pensioners and widows	SAPS light (normal health females amounts) U=2011

6.2 The approach adopted to deriving the demographic assumptions has been to determine assumptions which are on the prudent side of best estimate. The financial assumptions have been adopted using an approach that is consistent with that used for the previous valuation.

6.3 A number of changes have been made to the assumptions compared with those adopted at the previous valuation and these are discussed below.

Demographic Assumptions

6.4 Assumptions are needed on such factors as rates of mortality, retirement and withdrawal from the Assembly. Where possible, the past experience of the scheme is used as a guide. However, as the scheme is too small for the experience to be statistically significant enough to derive all the demographic assumptions, we have also had regard to experience and trends in other larger schemes. In considering the appropriateness of the assumptions for an actuarial valuation, it is important to have regard to the long-term, taking account of the likely incidence of Assembly Elections. Changes to the demographic assumptions compared to those adopted at the 2008 valuation are described below.

6.5 **Pensioner Longevity**

We have adopted mortality assumptions, called SAPS light tables, which are based on the most up to date information published by the Continuous Mortality Investigation. Improvements in mortality from the year 2002 to the date of the valuation have been assumed to be in line with the improvement in longevity observed in the UK population and published by the Office of National Statistics (ONS). Based on the mortality experience of the scheme over the intervaluation period, no age rating has been applied. This is the Baseline Mortality.

6.6 Allowance has also been made for assumed future improvement in mortality rates from the level of "Baseline Mortality", using the improvement factors adopted for the ONS 2010-based projections of the UK population.

6.7 The resulting expectation of life at normal retirement adopted for this valuation for male/female members at age 65 is shown in the table below, together with the rates adopted at the previous valuation.

Expectations of Life at Normal Retirement at Age 65

	Valuation Date	
	2008	**2011**
Current Pensioners		
Male Female	23.3 26.4	24.8 25.9
Future Pensioners (Actives & Deferreds currently aged 50)	**2008**	**2011**
Male Female	25.5 28.6	26.4 27.6

6.8 These assumptions are derived as being the best fit to the experience exhibited over recent years for similar schemes and are not out of line with what one might expect from this population. The same longevity assumptions are used for death in service.

6.9 **Assembly terms** At the previous valuation, Assembly Elections were assumed to take place every four years. Following the introduction of fixed five year Parliamentary terms for Westminster, we understand that this change will lead to five year Assembly terms, and so for the 2011 valuation we have assumed Assembly Elections will take place every five years, with the next election taking place in May 2016.

6.10 **Career Patterns** Even though the Assembly Election took place in May 2011, which was after the valuation date, we have allowed for election turnover in the valuation. For members who were re-elected, we have assumed they will continue in service until the next election. Members who stepped down or lost their seats at the election are valued as if they are deferred members or, if they are above Normal Retirement Age, as if their pension comes into payment immediately. When considering the contribution rate to be paid from April 2012, we have looked at the post-election membership, comprising members re-elected and newly elected.

6.11 The table below shows the proportion of AMs assumed to leave the Assembly at each election. This assumption used at the last valuation, which itself was determined following an exercise of looking at past experience over several Westminster elections, has been updated to allow for fixed five year Parliamentary terms, and as such the turnover rate for members under age 63 has been increased slightly.

Age at election date	Proportion of members who leave the Assembly	
	2008 valuation	2011 valuation
Under 63	20%	25%
63 to 75	80%	80%
75	100%	100%

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

Assumed Age at Leaving the Assembly

Age at valuation date	Average expected age of leaving the Assembly	
	2008 valuation (next election 2011)	2011 valuation (having been elected or re-elected in 2011) (next election 2016)
40	54	56
50	61	62
60	64	66
70	73	75

Financial Assumptions

6.13 The main financial assumptions adopted for this valuation are summarised in paragraph 6.1.

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

6.15 At the last valuation, the increases in pension benefits were linked to increases in the Retail Prices Index (RPI). The Chancellor announced in his Budget Statement on 22 June 2010 that pensions payable from public service pension schemes would in future be increased in line with the Consumer Prices Index (CPI) rather than RPI. (The scheme's governing regulations contain no provision for further discretionary increases to benefits and so none have been allowed for in this assessment.)

6.16 The switch from RPI to CPI would be expected, other things being equal, to reduce the allowance that needs to be made for future pension increases in placing a value on scheme benefits. On a historical basis, the evidence suggests that, on average, RPI has exceeded CPI by around 0.75% pa. However, during 2010 there were improvements made to the measurement methods of both RPI and CPI. These improvements have increased the measured level of RPI and CPI and resulted in the gap between the two increasing by an average of around 0.65% pa. This was reflected in a November 2011 report by the Office for Budget Responsibility (OBR) revising its forecast of the gap between RPI and CPI to 1.4% pa.

6.17 Benefits awarded at retirement are related to the level of members' salaries at that time, and contributions are defined as a percentage of salaries. In general, high rates of salary increases and price increases are associated with high investment yields, and the differences between investment yields and inflation are more important in the valuation than their absolute values. The investment returns actually achieved by the scheme in the inter-valuation period were slightly below the level of return that was assumed at the 2008 valuation. However, undue weight should not be given to short-term factors.

6.18 **Discount rate** - The discount rate can be viewed as a weighted average between the expected investment return on the scheme's return-seeking assets (equities and investments in the DGPF) and on bonds and cash. The expected return on bonds is taken to be the real yield on index-linked gilts, though this is a yield net of RPI inflation, so needs to be adjusted to give a yield net of CPI. The expected return on equities and investments in the DGPF is the expected return on bonds plus the equity risk premium. As at the valuation date, the equity risk premium has been estimated as 3% in excess of the return on gilts.

6.19 As discussed in paragraph 6.15, RPI is expected to be higher than historically due to changes in the index methodology. However, at the valuation date, that expected increase had not yet been fully taken into account by the market in terms of yields on index-linked gilts. Since the valuation date, such yields have fallen from around 0.65% pa to levels below 0% pa, part of which may be due to recognition within the markets of the expected change to RPI measurement.

6.20 In deriving financial assumptions for the valuation, it does not seem appropriate to take account of the expected increase to the gap between RPI and CPI (which would increase the net discount rate) without also allowing for the subsequent reduction in gilt yields, which would reduce the net discount rate. Using yields at the valuation date and a gap of 0.75% between RPI and CPI, the discount rate is derived as follows:-

6.21 Based on the real yield on index-linked gilts at the valuation date, the expected rate of return on the 17% of the scheme's assets to bonds and cash can be taken as 0.65% a year in excess of RPI, or 1.4% in excess of CPI. The expected rate of return on the 83% of the scheme's investments which are in equities or the DGPF can be taken as 3% in excess of returns on gilts (the equity risk premium), or 4.4% in excess of CPI. This gives a discount rate for valuing the liabilities of around 3.5% a year in excess of CPI inflation.

6.22 A similar analysis using gilt yields at a more recent date (when these had fallen below 0% pa) and a gap between RPI and CPI of 1.4% pa would also give an overall discount rate of around 3.5% pa. As such, for this valuation, the discount rate for valuing the liabilities is taken as 3.5% a year in excess of CPI inflation.

6.23 **Price inflation** The rate of inflation implied by comparing the yields on fixed-interest gilts with the yields on index-linked gilts was 3.0% as at 1 April 2011. The price inflation assumption is combined with the net discount rate described in the previous paragraph to give the gross discount rate assumption. Using assumptions of 3.0% a year for price inflation and 3.5% a year for the net discount rate would give a gross discount rate assumption of 6.6% a year (derived as 1.03 x 1.035 = 1.066, ie 6.6%).

6.24 **Pension increases** Pension increases on pensions in payment and in the deferred period are generally in line with increases to the Consumer Prices Index. Hence, this assumption is taken to be 3.0% per annum. This is an average, long-term assumption.

6.25 **Nominal Investment Return** The combination of a real return of 3.5% and price inflation of 3.0% produces a nominal rate of investment return of 6.6% pa.

6.26 The assumptions in paragraphs 6.22 to 6.24 have limited impact on the valuation result. Virtually all the benefits of the scheme are increased in line with salary growth (whilst members are accruing benefits) and price inflation (once a member has left service).

6.27 **Pay increases** The benefits accruing during service are linked to increases in members' pay, and it is therefore necessary to consider what increases in future pay levels might reasonably be anticipated. Real salary inflation has been assumed to be 2.25% pa, which results in a real discount rate in excess of pay increases of 1.25% pa. This is based on historical experience which shows that National Average Earnings have increased at a higher rate than price inflation.

6.28 **Expenses** Administration expenses incurred by the scheme during the three-year inter-valuation period were around £236,000, 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 £¼m was set aside for expenses. Expenses levels over the inter-valuation period were around 2% of payroll. For the 2011 valuation we have increased the expense allowance to £½m (and retained the 1% addition to the contribution rate). The costs of investment management are implicitly taken into account in determining the rate of return on investments assumed for this valuation.

7 Valuation Result – Funding Level

7.1 The results of the valuation are considered in two parts. The first part deals with the liabilities that have already accrued for current and former members in respect of service given before the valuation date (the *Actuarial Liability*), and the results for this aspect are set out at paragraph 7.2 below. The second part of the valuation deals with the liabilities expected to accrue in respect of future service for current members (the *Standard Contribution Rate*), and this is discussed in Section 8 below.

7.2 **Past Service Assessment** The liabilities for past service and the assets of the scheme have been determined on the methodology set out in section 5 of this report, using the actuarial assumptions described in section 6. The results of the valuation in relation to past service liabilities are set out below:

Valuation Statement as at 1 April 2011 – Past Service

		Value at 1 April 2011 *(£ million)*
	Current members – service up to 1 April 2011:	
(1)	(a) (i) Assembly Members who were re-elected in May 2011 election	6.61
	(ii) Assembly Members who left the Assembly at May 2011 election	5.23
(2)	(b) Office holders	1.23
	Members with deferred benefits:	
(3)	(a) Former members	1.32
(4)	(b) Former office holders who are still AMs	0.08
	Pensions in payment:	
(5)	(a) Pensioners	1.81
(6)	(b) Surviving dependants of former members	0.36
(7)	**Total liabilities for benefits = (1) to (6)**	16.65
(8)	Reserve for administration expenses	0.5
(9)	**Actuarial liability = (7) + (8)**	**17.15**
(10)	**Value of assets**	**18.79**
(11)	**Shortfall of assets to liabilities = (9) – (10)**	**(1.64)**
(12)	**Ratio of assets to liabilities = (10) / (9)**	**109.5%**

7.3 The figures in the Valuation Statement show that the scheme has a relatively immature liability profile. The liability for the past service of current members, at around £13.08 million (rows (1) and (2) above), is significantly larger than the liability in respect of former members and dependants in receipt of pension at £2.17 million (total of rows (5) and (6) above). The aggregate liability for accrued benefits of current members at the valuation date is 79% of the total liability, whereas 21% relates to former AMs and office holders, including deferred members, (13% pensioners and 8% deferreds).

7.4 However shortly after the valuation date, 22 AMs left the Assembly at the May 2011 election and became either deferred members or pensioners, so these proportions have changed significantly following the election. Following the election, 47% of the liabilities are in respect of current members, with 53% of the liabilities in respect of (now) former AMs and office holders.

7.5 **Analysis of Deficit** The result of the valuation shows a move from a very small deficit of £0.04 million to a surplus of £1.64 million over the three-year period to the valuation. The key factors influencing the change are shown below both in cash terms and as a percentage of the 2011 liabilities.

Summary of Change in Surplus (Deficit) 2008-2011

	£ million	***Percentage of liabilities***
Deficit at 1 April 2008	**(0.04)**	**(0.3%)**
Divergence of scheme's experience from actuarial assumptions	2.1	11.8%
Change in pension indexation from RPI to CPI	1.7	10.1%
Changes to financial assumptions from those adopted at previous valuation	(2.2)	(12.8%)
Changes to demographic assumptions from those adopted at previous valuation	0.1	0.6%
Surplus at 1 April 2011	**1.64**	**9.5%**

8 Valuation Result – Contribution Requirement

8.1 **Future Service Assessment** The cost of benefits accruing for future service is assessed by means of the *Standard Contribution Rate*, as described at paragraph 5.6 of this report. The *Standard Contribution Rate* calculated on the actuarial assumptions set out in section 6 of this report is 34.3% for AMs and office holders combined, excluding the allowance of 1% for scheme expenses.

8.2 Contributions are payable by members at the rate of 6% or 10% of pensionable salaries. On the basis of current members' chosen accrual rates, members' contributions are expected to average 9.8% of the scheme's pensionable payroll for the duration of the current Assembly, as at the 2008 valuation.

8.3 The Assembly's share of the *Standard Contribution Rate*, which is the balance of costs that would fall to be met by the Assembly in the absence of any surplus or deficiency, is assessed as 24.5% of pensionable salaries (being 34.3% less 9.8%) excluding the allowance of 1% for scheme expenses.

8.4 The Standard Contribution Rate can be expected to remain broadly stable if the distribution of the membership by age, salary, length of service and each member's chosen accrual rate remain broadly constant, and if there is no change in actuarial assumptions.

8.5 **Recommended Rate of Assembly Contributions** Under Section S3(b) of the Rules, we are required to determine the rate of Assembly contributions needed to meet the balance of the cost of the scheme, having regard to the benefits and to the contributions payable by members.

8.6 As shown in the Valuation Statement at paragraph 7.2, a surplus of assets relative to liabilities has arisen since the previous actuarial valuation. The surplus is assessed as £1.64 million. It would be possible for Assembly contributions to be reduced to a lower level than the Standard Contribution Rate in order to remove the surplus.

8.7 For the previous valuation, the deficit was amortised over a 15-year period, which reflected a reasonable approach to funding where there is a desire to keep to a relatively low level the impact of surpluses/deficits. Removing the surplus over this period would result in a reduction of 2.9% to the Assembly share of the Standard Contribution Rate.

8.8 On this approach, the contribution rate required to be paid from 1 April 2012 to meet the cost of benefits currently accruing in the scheme, and by the Assembly to remove the surplus, would be 22.6% of the pensionable salaries of scheme members. No allowance has been made for any further surplus or shortfall that may have arisen between the valuation date and the date the revised contribution rate becomes payable.

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

	1 April 2011 (%)	**1 April 2008 (%)**
Standard Contribution Rate	34.3	32.5
Average member contribution rate	9.8	9.8
Assembly's share of the Standard Contribution Rate	24.5	22.7
Expenses	1.0	1.0
Deficit Contributions	(2.9)	0.1
Recommended Assembly contribution after deficit/surplus contributions	22.6	23.8

8.10 **Analysis of Change in Total Required Rate** The change to the total required rate of contributions – from 33.6% to 32.4% of scheme payroll – is mainly because of the emergence of the surplus, partly offset by the increase to the Standard Contribution Rate. The table below summarises the main factors that account for the change to the required rate of contributions.

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

Required contribution rate following 2008 valuation (23.8% employer plus 9.8% member)		**33.6%**
Future service change		
Impact of changes to membership	-0.2%	
Change in pension indexation from RPI to CPI	-3.4%	
Changes to financial assumptions from those adopted at previous valuation	5.4%	
Changes to demographic assumptions from those adopted at previous valuation	0.0%	
		1.8%

Past service change		
Divergence of scheme's experience from actuarial assumptions	-3.6%	
Change in pension indexation from RPI to CPI	-3.1%	
Changes to financial assumptions from those adopted at previous valuation	4.0%	
Changes to demographic assumptions from those adopted at previous valuation	-0.3%	
Reduced cost of amortising surplus / deficit		**-3.0%**
Required contribution rate following 2011 valuation		**32.4%**

8.11 However, following discussions with the Trustees, it has been agreed that the Assembly contribution rate should continue at its current level of 23.8% of pay. This is equivalent to removing the surplus over a period longer than 15 years, so is a more prudent approach than paying the rate described above.

9 Sensitivities

9.1 We have considered how sensitive the results are to changes in the assumptions, and to experience differing from the assumptions, and this is being discussed with the Trustees at an appropriate time.

Discount rate

9.2 **Increase** – The impact of an increase in net discount rate of ½% to 4% pa would be a reduction in the Assembly's contribution requirement (allowing for a reduction in contribution rate to remove the surplus over 15 years) from 22.6% to 15.9%.

9.3 **Decrease** - The impact of a decrease in net discount rate of ½% to 3% pa would be an increase in the Assembly's contribution requirement (allowing for a reduction in contribution rate to remove the surplus over 15 years) from 22.6% to 30.0%.

Salary growth

9.4 **Decrease** – The impact of a decrease in the salary growth assumption of ½% to 1¾% pa in excess of CPI would be a reduction in the Assembly's contribution requirement (allowing for a reduction in contribution rate to remove the surplus over 15 years) from 22.6% to 20.4%.

9.5 **Decrease** - The impact of an increase in the salary growth assumption of ½% to 2¾% pa in excess of CPI would be an increase in the Assembly's contribution requirement (allowing for a reduction in contribution rate to remove the surplus over 15 years) from 22.6% to 24.9%.

Mortality

9.6 **Decrease** – the impact of assuming that on average members live 1 year less would be a reduction in the Assembly's contribution requirement (allowing for a reduction in contribution rate to remove the surplus over 15 years) from 22.6% to 21.6%.

9.7 **Increase** - the impact of assuming that on average members live 1 year longer would be an increase in the Assembly's contribution requirement (allowing for a reduction in contribution rate to remove the surplus over 15 years) from 22.6% to 23.6%.

10 Recommendation

10.1 Section S3(b) of the Rules requires that, at each actuarial valuation, the Actuary shall recommend the rate of contribution that should be paid by the Assembly in respect of any financial year beginning after this report is made. We have completed the actuarial valuation of the NAfW MPS as at 1 April 2011, using the methodology and actuarial basis described in this report, and the recommendation we are required to give under the Rules is set out in paragraph 10.2 below.

10.2 We recommend that the Assembly's contributions payable from 1 April 2012 should be at the rate of **23.8% of pensionable pay** adjusted to take account of any changes in members' contributions and/or any benefit reductions that occur before the next valuation is completed. The value for the purposes of such adjustment of any benefit reductions will be as assessed by the Actuary using the same assumptions as in this report.

Trevor Llanwarne FIA
Government Actuary

Ian Boonin FIA
Government Actuary's Department

26 March 2012

11 APPENDIX A: SUMMARY OF THE MAIN PROVISIONS OF THE SCHEME

1. All serving Assembly Members may participate in the National Assembly for Wales Members' Pension Scheme. Ministers and certain other office holders may participate in a supplementary section of the scheme and qualify for a supplementary pension on a similar basis to AMs, except that benefits accrue by reference to salary in each year of office holder membership, rather than by reference to final pay.

2. 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. Assembly contributions are paid at a rate recommended from time to time by the Actuary. Service while a member's salary is abated as an MP or MEP, is reduced pro-rata to the reduction in salary.

3. 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.

4. Retirement pensions are payable from age 65 to those who are no longer AMs or office holders. Pensions may be paid before age 65 in the following circumstances:

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

5. An ill-health retirement pension may, subject to medical evidence, be awarded at any age. Ill-health pensions are calculated by reference to potential service to age 65.

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

7. Pensions are also payable to spouses and other qualifying partners of deceased scheme members at the rate of five-eighths of the deceased member's pension. Children's pensions are also payable. In the case of members who die in service, the spouse's or partner's pension is based on the pension that would have been payable to the member had ill-health retirement taken place at the date of death. On death in service, a member's salary continues to be paid to a surviving spouse or partner for a further three months. A lump sum equal to four times pensionable salary is also paid on the death in service of a scheme member. Benefits include survivor pensions payable to qualifying unmarried partners, as well as to widows, widowers and civil partners, upon the death of a member.

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

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

12 APPENDIX B: MEMBERSHIP AT 1 APRIL 2011

TABLE 1 - SITTING MEMBERS CONTRIBUTING TO THE SCHEME PRIOR TO DISSOLUTION

Numbers	
Number of contributing members at 1 April 2008	60
New Members	
Members elected 2008-2011	1
Leaving Members	
Members leaving the Assembly 2008-2011:	
Deaths	1
Retirements on pension (on age or ill-health grounds)	1
Number of contributing Members at 1 April 2011	59
Members leaving the Assembly at 5 May 2011 Assembly Election	22
New members elected at 5 May 2011 Assembly Election	23
Number of contributing Members following 5 May 2011 election	60
Service and Pay at 1 April 2011	
Average pensionable service (years)	10.1
Average pay	£53,329
Average age	53.7

Table 2 – BENEFICIARIES OF THE SCHEME PRIOR TO DISSOLUTION

Preserved Pensioners as at 1 April 2011	
Number of former members with preserved pensions	14
Average annual preserved pension including increases to 1 April 2011	£7,240
Average age	54.5
Pensioners and Dependents as at 1 April 2011	
Numbers of beneficiaries in receipt of pensions	18
Average annual pension including increases to 1 April 2011	£7,090
Average age	67.0

TABLE 3 – OFFICE HOLDERS

Contributors	
Number of Office Holders contributing following the Election	**32**
Salaries on which contributions are based	**£860,400**

13 APPENDIX C: CONSOLIDATED REVENUE ACCOUNT FOR THE PERIOD 1 APRIL 2008 TO 31 MARCH 2011

CONSOLIDATED REVENUE ACCOUNT FOR THE PERIOD
1 April 2008 to 31 March 2011

		£'000
Balance at 1 April 2008		**11,350**
Income over period from 1 April 2008 to 31 March 2011:		
Assembly regular contributions	2,847	
Member regular contributions	1,166	
Member purchase of added years	38	
Transfers in	223	
Total Income (excluding interest)		**4,274**
Expenditure over period from 1 April 2008 to 31 March 2011:		
Retirement benefits	396	
Death benefits	215	
Professional fees and administration costs	236	
Total Expenditure		**847**
Interest on cash deposits and change in market value of investments over period from 1 April 2008 to 31 March 2011:		**4,007**
Balance at 31 March 2011		**18,785**

14 APPENDIX D: ANALYSIS OF THE INVESTMENTS OF THE SCHEME

TYPE OF ASSET	Value At 31 March 2011 £ '000	Distribution of fund assets at 31 March 2011 *(%)*
UK Equities	4,328	23.0%
Overseas Equities		
North America	2,093	11.1%
Europe	2,479	13.2%
Asia Pacific	1,451	7.7%
Emerging Markets	1,374	7.3%
Total Overseas Equities	7,398	39.4%
Diversified Growth Pension Fund	3,798	20.2%
Fixed Interest	601	3.2%
Index-Linked	1,387	7.4%
Cash & Deposits	867	4.6%
Current Assets and Liabilities	405	2.2%
TOTAL ASSETS OF THE SCHEME	**18,785**	**100.0%**

Figures may not total exactly due to rounding

15 APPENDIX E: Assumptions

Demographic Assumptions

Members	Mortality table
Male active and deferred members	S1NMA_L-10(C=2035)
Female active and deferred members	S1NFA_L-10(C=2035)
Male pensioners	S1NMA_L-10(U=2011)
Female pensioners	S1NFA_L-10(U=2011)
Widowers and other partners of female members	S1NMA_L-10(U=2011)
Widows and other partners of male members	S1DFA_L-10(U=2011)

Note: The S1NFA_L-10 and S1NMA_L-10 mortality tables (for males and females respectively) are published by Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries. They are based on the experience of pensioners in UK occupational pension schemes.

The 'S1NA-10 table is the published S1NA table with future improvements broadly in line with population improvements to 2010 and in line with the 2010-based principal population projections thereafter.

Assembly terms

At the previous valuation, Assembly Elections were assumed to take place every four years. Following the introduction of fixed five year Parliamentary terms for Westminster, for the 2011 valuation we have assumed that Assembly Elections will also take place every five years, with the next election taking place in May 2016.

Career Patterns

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

Assumed Age at Leaving the Assembly

Age at valuation date	Average expected age of leaving the Assembly
40	56
50	62
60	66
70	75

Commutation

No allowance has been made for the possibility of members commuting part of their pension for a cash lump sum at retirement, as the scheme's commutation factors are assumed to be cost-neutral on the valuation basis.

Marital Statistics

Up to age 60, all members are assumed to be married or have a civil partner or qualifying partner. Thereafter, the proportion of members with a spouse or partner reduces in line with the mortality of the spouse or partner. Male members are assumed to be three years older than their spouse or partner; female members are assumed to be three years younger than their spouse or partner.

Financial Assumptions

	1 April 2011	1 April 2008
Real rate of return, net of earnings increases	1.25%	2.0%
Real rate of return, net of price/pension increases	3.5%	3.5%
Index for pension increases	CPI	RPI