

Consultation on future pension arrangements for Assembly Members

National Assembly for Wales Remuneration Board

April 2014

The Remuneration Board

The Remuneration Board of the National Assembly for Wales is the independent body responsible for setting the pay, pensions and allowances of Assembly Members and their staff. The Board was established by the National Assembly for Wales (Remuneration) Measure 2010, which received Royal Approval on 22 July 2010.

Members of the Board

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Chair's foreword

Our role as the independent Remuneration Board of the National Assembly for Wales is to put in place a system of remuneration and financial support that enables Assembly Members to carry out their duties.

In September 2012, we published our *Review of Assembly Members' Pensions – Issues and Options*, which sought views on the design of Assembly pension scheme and outlined our intention to come to a final decision on Members' pension arrangements in 2014. The Board has used the feedback on that review to inform its consideration of suitable pension arrangements for Assembly Members in the Fifth Assembly.

From now until the publication of the final Determination in May 2015, we will be consulting Assembly Members on all aspects of their remuneration. This is the first of a two-part consultation specifically on pensions, but in the context of wider remuneration, which seeks your views to assist us in designing a modern pension scheme that is in line with best practice:

- Phase 1: A high level consultation which includes questions on certain proposals and provides a broad outline of the type of scheme that could be introduced; and
- Phase 2: Following analysis of phase 1 consultation responses, we will issue a detailed public consultation on a proposed pension scheme.

To prepare for the next stages of our examination of the full package of remuneration for the Fifth Assembly, we have held regular discussions with a number of stakeholders and will continue to engage with you up to the publication of the final Determination. The pension scheme forms a key part of the remuneration package and we are determined to ensure that the financial arrangements for Assembly Members are transparent and a beacon of good practice. To assist us in coming to robust decisions, we have commissioned independent professional legal advice on pensions from Wragge & Co and actuarial advice from PwC. We have also monitored developments in other legislatures and the wider pensions environment in drawing up the proposals in this document.

We have reached no final conclusions regarding the outcome of our review and will be proactive in engaging with the public and those affected by our decisions to shape our

proposals. We are clear, however, that the pension arrangements we put in place should be fair, affordable in the long term and provide appropriate retirement benefits for Assembly Members. Our decisions will take into consideration pension trends affecting the people of Wales.

This consultation paper, which includes a summary of our proposals, invites you to submit your views to inform our deliberations. The evidence we gather from this consultation will be considered very carefully by the Board. We therefore strongly encourage Assembly Members, members of the National Assembly for Wales Members' Pension Scheme and all other stakeholders, to engage with us. The consultation will close on **Wednesday 21 May 2014**. Responses should be sent to the Clerk to the Remuneration Board, whose contact details can be found on the inside cover of this document.

I hope you will take the opportunity to contribute to our review.

Sandy Blair CBE

A rectangular box containing a handwritten signature in cursive script that reads "Sandy Blair".

Chair / Cadeirydd

Y Bwrdd Taliadau / Remuneration Board

Responding to this consultation

Below is a summary of our proposals. We invite comments from members of the public and members of the National Assembly for Wales Members' Pension Scheme on the proposals in this document. We will consult in further detail on the scheme in July 2014. The next consultation will be aimed at existing scheme members affected by any changes we introduce.

We will finalise our proposals by May 2015, a year before the next Assembly election. New pension arrangements will be in place from the start of the next Assembly in May 2016.

The deadline for responses is 21 May 2014.

Responses should be sent to the Clerk to the Remuneration Board:

Remuneration@wales.gov.uk

Summary of questions

Cost allocation

Question 1

Should the Assembly Members' proposed new CARE scheme follow the other public sector schemes by having a greater proportion of the cost met by Assembly Members than is currently paid?

Question 2

What percentage of a Member's total remuneration should be represented by Assembly Commission contributions to a pension scheme?

Question 3

How do you think the overall cost of the new CARE scheme should be split between the Assembly Commission and Assembly Members?

Accrual and Revaluation Rates

Question 4

What is your view on the proposal that that the new CARE pension scheme should have a single accrual rate for all Assembly Members?

Additional Voluntary Contributions

Question 5

Should we permit Additional Voluntary Contributions to the new scheme?

Death in Service Benefits (DiS)

Question 6

What is your view on the appropriate rate of Death in Service benefit as a multiple of basic salary (and, where relevant, additional Office Holders' salaries) that should be included in the Assembly Members' CARE pension scheme?

Question 7

Should there be a 'cut off point' for the eligibility to receive Death in Service (DiS) benefit at National Retirement Age (NRA)? If so, what form of tapering should be provided for members between Normal Retirement Age and 75?

Surviving spouse/partner pensions

Question 8

What is your view on an appropriate rate of surviving spouse/partner pension?

Transitional protection

I. Accrued Rights

Question 9

Do you have any views of the proposal that the implementation of the new CARE pension scheme should be aligned with the start of the Fifth Assembly in May 2016, rather than with April 2015 as is the case for much of the public sector?

Question 10

Do you have any views on whether the final salary link should be maintained in respect of Assembly Members' accrued benefits under the existing Scheme?

II. Grandfathering (Transitional Protection)

Question 11

Which of the options a. and b. do you consider to be the most appropriate?

Question 12

Should further tapering of the grandfathering /protection provision be offered?

Question 13

What is your view on aligning spouse/partner pension grandfathering/protection with the same period as grandfathering for Assembly Members?

Question 14

If grandfathering is offered, should the Assembly Members' proportion of the cost of providing grandfathered benefit be spread across all current and future members of the scheme, or should this be met only by Assembly Members wishing to receive grandfathered benefits?

Equality Impact Assessment

Question 15

Do you consider that any of the CARE pension scheme proposals would disproportionately impact or disadvantage any particular groups of people?

Introduction and background to this interim consultation

1. Our mandate as the independent Remuneration Board of the National Assembly for Wales is to put in place a system of remuneration and financial support that:
 - a. enables Assembly Members to fulfil their duties;
 - b. fairly reflects the complexities of the functions Assembly Members discharge; and
 - c. does not, on financial grounds deter persons with the necessary commitment and ability from seeking election to the Assembly.
2. We have been reviewing Assembly Members' pension arrangements since the summer of 2012. This review arose due to a number of factors.
3. Demographic and economic changes in recent years have caused, and are likely to continue to cause, increased costs for pension scheme providers. The publication of the Hutton report has led to changes to most public sector pension schemes, the majority of which are to take effect in April 2015.¹ For new and existing employees in most of the public sector, final salary pension schemes will be replaced by Career Average Re-valued Earnings (CARE) pension schemes.
4. This mirrors changes in the private sector where the majority of final salary pension schemes have been replaced with defined contribution pension schemes. These schemes are generally considered to be less advantageous for employees than either final salary or CARE pension schemes.
5. Many individuals in Wales will see significant changes being made to their pension arrangements over the next few years as a result of the issues highlighted above. As one of the core principles underpinning our work is that our decisions should take account of the Welsh context, changes to pension provision in Wales have been a further reason for our pension review.
6. We ran our first public consultation on future pensions for Assembly Members from September 2012 to January 2013. As part of this we held a colloquium on 11 October

¹ *Independent Public Services Pensions Commission: Final Report, March 2011*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_10031_1.pdf

2012.² The response to that public consultation was fairly limited. A summary of responses is included in Appendix A.

7. Since the end of the public consultation we have received legal and actuarial advice which has helped inform our thinking, and will continue to do so as we further refine our proposals, discuss them with those affected and consider responses to this consultation.
8. In the light of the initial consultation and pension changes in other organisations, including many in Wales, we have also considered:
 - a. whether it is appropriate to change current the National Assembly for Wales Members' pension scheme (the Assembly Members' pension scheme) from a final salary scheme to some other type of scheme;
 - b. what type of scheme is the most appropriate; and
 - c. when any changes should be introduced.
9. We have concluded that a change is appropriate, and that the change should be to a CARE pension scheme. It is our opinion that a CARE pension scheme provides a reasonably fair balance between cost and risk to the taxpayer and the Assembly Member pension benefit, in particular bearing in mind the age demographic of Assembly Members.
10. The Public Sector Pensions Act 2013 (PSPA) provides the legislative framework for changes to the public sector schemes, including the Assembly scheme. The PSPA will govern some of the requirements of a new pension scheme for Assembly Members. As a result of the PSPA, any new pension scheme cannot be a final salary scheme. We have, and will continue to, discuss our proposals with HM Treasury to ensure that the arrangements comply with the requirements of the PSPA.
11. We therefore intend that the existing Assembly scheme will be amended to introduce a new CARE benefit category for service from the start of the Fifth Assembly in May 2016. The new arrangement will apply to the pension and ancillary benefits calculated by reference to Assembly Members' base pay. Future pension arrangements linked to the additional salaries received by Officer Holders, and the associated ancillary benefits that are calculated by reference to these additional salaries, will continue broadly on their current terms as they are already on a CARE

² *Review of Assembly Members' Pensions Issues and Options September 2012*
http://www.assemblywales.org/memhome/pay-expenses-financial-interests-standards/mem-allow-pay-pensions/remuneration_board.htm

basis. However there may be changes to some of the associated benefits such as Death in Service and spouse/partner pension. See Appendix B.

12. This consultation focuses on how such a new scheme should take effect and what the main terms of the new scheme should be.
13. Over the next year we will also be making a decision on salaries for Assembly Members from the start of the Fifth Assembly in May 2016. Our decisions on Assembly Members' salaries will have regard to total remuneration, by which we mean the combined value of pay and the cost of 'employer' pension contributions for Assembly Members. In this context the equivalent of the 'employer' contribution is paid by the Assembly Commission, the body that is responsible for providing property, staff and services to the Assembly.³
14. Later in 2014 we will issue our final public pension consultation on pensions. At that stage we will set out final proposals for the new scheme and will ask for final comments on those. We will also ask a number of questions about total remuneration.
15. A summary of the main features of the current Assembly Members' Pension Scheme is set out in Appendix B. An explanation of common features within a typical CARE scheme is contained in Appendix C and summary details of the current position in relation to elected members within other UK legislatures are noted in Appendix D.

Purpose

16. This is the second or interim phase of our review of future pension arrangements for Assembly Members. We invite comments from members of the public, Assembly Members and the Trustees of the Assembly Members' current pension scheme.
17. The deadline for responses is 21 May 2014. Responses should be sent to the Clerk to the Remuneration Board: remuneration@wales.gov.uk

Proposals and consultation questions

18. A number of specific questions have been raised in the following sections (A to H). The questions are included below each relevant section. To inform those responding to this consultation further information is included in Section I. The information in

³ *Assembly Members are office holders and not employees. They do not therefore have an employer. However, for the purposes of the Assembly Members' proposed new pension scheme, HM Treasury has indicated that the Assembly Commission should for PSPA purposes be deemed to be the "employer", and Assembly Members deemed to be "employees". Employer and Employee contributions are therefore for this purpose the pension contributions made by the Assembly Commission and Assembly Members respectively – broadly in a similar way as they are under the current pension scheme.*

Section I includes indicative results of complex actuarial modelling (Table 2), which may help when answering the questions in Sections A to H. Table 2 is illustrative and aims to explain the possible ‘employer’ and ‘employee’ cost implications of different combinations of pension benefits that could be provided under the proposed new CARE pension scheme. Table 3 summarises the main proposed terms of a number of the large public sector CARE pension schemes.

A. Cost allocation

19. The next valuation of the current pension scheme will be carried out at the end of March 2014. This valuation is likely to show that the cost of funding the present scheme for future accruals will rise. The Assembly Commission’s contribution rate is capped at 23.8%. Consideration will therefore need to be given to changes to Assembly Members contribution rates and/or benefits to be provided by the scheme once the results of the valuation are known, in order for the current pension scheme to remain fully funded.
20. The current cost allocation means that a substantial part - around 19% - of Assembly Members’ current total remuneration (i.e. basic salary plus pension contributions) relates to taxpayer pension contributions.

Table 1: Cost of main features of current AMs’ scheme compared with current and proposed MPs’ scheme

	AMs’ scheme		MPs’ scheme	
	Current	Current	Future	
Accrual Rate	1/40	1/40	1/51	
Total cost as % of salary	33.8%	34.2%	22.9%	
Members’ contribution				
as % of salary	10.0%	13.9%	10.5%	
as % of total cost	29.6%	40.5%	45.9%	
Taxpayer contribution				
as % of salary	23.8%	20.4%	12.4%	
as % of total cost	70.4%	59.5%	54.1%	

21. The UK Government’s public sector pension reforms have targeted an average cost ratio of 60:40 between employers and employees. In many of the new public sector schemes there will be tiered employee contribution rates in order to achieve that average ratio – for example with higher paid employees paying a higher contribution rate than lower paid employees.

22. The cost allocation under the Assembly Members' current final salary pension scheme is around 70:30, based on current employer rates and using a 10% of base salary contribution rate from Assembly Members.⁴ This provides a pension accrual rate of 1/40ths for most Assembly Members. The total cost of the current pension scheme is approximately 33.8% of Assembly Members' payroll. The Assembly Commission's contribution - i.e. the part of the cost borne by the tax payer - is approximately 23.8%.
23. By way of illustrative comparison the **current** final salary pension scheme for MPs at Westminster has a total cost (employer and employee contributions in aggregate) of approximately 34.2% of MPs' payroll, of which MPs pay various levels of contribution for different accrual rates (the majority paying the 1/40th accrual). This is illustrated in Table 1. The Independent Parliamentary Standards Authority (IPSA) has determined that the proposed new CARE pension scheme for MPs at Westminster, which will take effect from April 2015, should target an initial cost allocation between employer and employee of 54:46.⁵

Question 1

Should the Assembly Members' proposed new CARE scheme follow the other public sector schemes by having a greater proportion of the cost met by Assembly Members than is currently paid?

Question 2

What percentage of a Member's total remuneration should be represented by Commission contributions to a pension scheme?

Question 3

How do you think the overall cost of the new CARE scheme should be split between the Assembly Commission and Assembly Members?

B. Accrual and Revaluation Rates

24. The accrual rate is the proportion of earnings accrued as pension for that year. The revaluation rate is used to increase the value of each year of accrued pension until retirement. Each of these factors has an effect on the cost of a scheme. For the same

⁴ Although there is a facility under the current pension scheme for Assembly Members to pay a lower rate of 6% (for 1/50th accrual of pension), the vast majority of Assembly Members pay a higher 10% rate (for 1/40th accrual of pension).

⁵ IPSA MPs' Pay and Pensions Final Report (December 2013)

[www.http://parliamentarystandards.org.uk/payandpensions/Documents/IPSA%20final%20report.pdf](http://parliamentarystandards.org.uk/payandpensions/Documents/IPSA%20final%20report.pdf)

level of overall pension cost a higher accrual rate would result in a lower revaluation rate and vice versa (this is illustrated later in this document in Table 2).

25. The PSPA requires the revaluation rate to be set in accordance with changes in prices (Consumer Prices Index) or earnings in a given period. The rate of change in prices or earnings for this purpose will be set by HM Treasury. The majority of the large public sector employers have decided to select a revaluation rate computed by reference to changes in the Consumer Prices Index (CPI) rather than by reference to changes in earnings. The Remuneration Board intends to adopt a similar approach. Further information on accrual rates and other pension benefits are set out in Tables 2 and 3 later in this document.
26. A further consideration for the Board is whether the scheme should offer its members more than one accrual rate. Under the existing final salary pension scheme Assembly Members have the option of two different accrual rates (1/40ths and 1/50ths) with Assembly Member contribution rates of 10% and 6% respectively. 58 of the current 61 members of the Assembly scheme have opted for the 1/40ths accrual rate.
27. We have been advised that introducing more than one accrual rate in the new CARE pension scheme is likely to complicate the administration and financial management of the scheme, thus leading to additional cost. In addition, the proposed CARE pension scheme terms for most of the larger public sector organisations have adopted a single accrual rate. For these reasons, the Remuneration Board proposes that the new CARE pension scheme should have a single accrual rate.

Question 4

What is your view on the proposal that that the new CARE pension scheme should have a single accrual rate for all Assembly Members?

C. Additional Voluntary Contributions

28. Under the existing final salary pension scheme, Assembly Members have the option to increase their benefits payable at retirement by paying Additional Voluntary Contributions (AVCs). This enables them to purchase additional years of service credit. This option carries a funding risk for the pension scheme in the future. Most schemes in the private sector now only permit AVCs to be invested on a defined contribution basis. This means that the member's defined contribution AVC fund would be available at retirement to secure additional pension but with no guarantee of the level of additional benefit that would be provided. This is usually by purchase of an annuity from an insurer, although this may change as a result of the UK

Government's recent Budget proposals. The current Assembly Member final salary scheme does not contain a facility to make contributions for a defined contribution benefit.

29. There is no legal requirement to provide an AVC facility within the proposed new CARE pension scheme. Doing so would increase the administrative complexity and cost of operating the scheme. A range of other options exist outside occupational pension schemes by which individuals can increase their pension benefits – in particular via Self- Invested Personal Pensions (SIPP). SIPPs are widely available and can be tailored to each individual's particular requirements. For these reasons the Remuneration Board's view is that the new CARE pension scheme should not include the facility either to buy added years of service credit or for AVCs to be payable on a defined contribution basis.

Question 5

Should we permit Additional Voluntary Contributions to the new scheme?

D. Normal Pension Age

30. As part of its reform of public sector pension schemes the UK Government has specified that schemes should include the Normal Retirement Age of an individual's State Pension Age (SPA), or 65 if their SPA is below 65. An individual's SPA currently depends on their date of birth and gender. The SPA for women is set to increase to the age of 65 by November 2018, with the SPA for both men and women rising to age 66 by October 2020. The Government is proposing in its Pension Bill 2013-2014 to bring forward the proposed increase in SPA to age 67 to between 2026 and 2028, which is earlier than their original timetable set in 2007.
31. The current Assembly Members' pension scheme has a normal retirement age of 65. The majority of the proposed new CARE pension schemes in the public sector have followed the Government's targeted pension age of SPA.
32. In line with the PSPA requirements the normal pension age under the new CARE pension scheme will be the higher of 65 and the individual's SPA. This will have an impact on the retirement age of some Assembly Members serving in the Fifth Assembly.

E. Death in Service Benefits (DiS)

33. The current Assembly Members' pension scheme provides for a payment of four times the Member's pensionable pay to be paid to the deceased Member's dependents or estate (as nominated in writing prior to death) in the event of a

Member dying whilst in service. Additional salaries payable to Office Holders also carry the same multiple of death in service (DiS) benefit.

34. A wide variety of DiS benefits are available under private sector and public sector schemes, and there is a similar divergence on the rate of DiS benefits under the various public sector proposed CARE pension schemes (as shown in Table 3 below). Most of the larger public sector schemes are proposing DiS benefits equal to a multiple of two or three times the individual's pensionable pay.
35. If a change to the DiS multiple under the new CARE pension scheme were to be introduced, it would apply from the start of the Fifth Assembly to all eligible Assembly Members in respect of both basic salaries and additional Office Holders' salaries.
36. The approximate total cost of providing DiS benefits under a scheme for members with an age and gender profile similar to those of the current Assembly Members is approximately 0.25% of salary for each multiple of annual salary provided as a benefit (i.e. providing a DiS benefit of 4x salary has an approximate cost of 1.0% of salary and a DiS benefit of 2x salary an approximate cost of 0.5% of salary). Table 2 shows the approximate cost of a future CARE scheme assuming a DiS benefit of 2x salary is provided.

Question 6

What is your view on the appropriate rate of Death in Service benefit as a multiple of basic salary (and, where relevant, additional Office Holders' salaries) that should be included in the Assembly Members' CARE pension scheme?

37. The cost of providing a DiS benefit rises rapidly as the age of a member increases. The current Assembly Members' scheme provides the same level of cover for all members. There is an upper age limit for eligibility – no gratuity on DiS can be granted to a participant if the deceased person has reached 75 at the age of death under current tax rules.
38. The Board is considering the eligibility criteria for serving Assembly Members to receive this benefit in the event of death in service. There are a number of ways this could be dealt with. The following options are under consideration, with a) being the most costly and d) the least:
 - a. DiS eligibility applying to all Assembly Members in service;

- b. DiS eligibility applying to Assembly Members who are below normal pension age under the new CARE pension scheme and those who have reached normal pension age but have not started to draw their pension;
 - c. DiS eligibility applying to Assembly Members who are below normal pension age under the new CARE pension scheme. For those who have reached normal pension age, the Death in Service could be tapered down by 10% of the normal multiple amount each year until the age of 75 when entitlement would cease; or
 - d. DiS eligibility applying only to Assembly Members in service whilst they are under normal pension age under the new CARE pension scheme.
39. The Board is considering changing the eligibility for DiS benefit so that the full rate of benefit is only available for members below Normal Retirement Age. The Board will consider the appropriate level of benefit (i.e. 2x, 3x or 4x salary) and whether to introduce any form of tapering provision between Normal Retirement Age and 75.

Question 7

Should there be a 'cut off point' for the eligibility to receive Death in Service benefit at Normal Retirement Age? If so, what form of tapering should be provided for members between Normal Retirement Age and 75?

F. Surviving spouse/partner pensions

40. Most public sector pension schemes - whether final salary or CARE- include provisions to enable a pension to be paid to the surviving spouse/partner of a deceased pension scheme member. In some cases provision is also made for benefits to be paid to children below a specified age or other dependents of that deceased member. Surviving spouse/partner pensions are typically expressed as a fraction or percentage of the deceased member's pension. Under the Assembly Members' current final salary scheme the survivor's pension is 5/8ths (62.5%) of the deceased member's pension. The current scheme also includes provisions for benefits for other dependents. There is a reasonably wide divergence in the rates of survivor pensions under the main public sector proposed CARE pension schemes, ranging from 33.75% to 62.5% of the deceased member's pension entitlement.

Question 8

What is your view on an appropriate rate of surviving spouse/partner pension?

G. Transitional protection

I. Accrued Rights

41. The new CARE pension scheme is to become effective from the first day of the Fifth Assembly in May 2016. Under this arrangement the current final salary scheme arrangements will be closed to future accrual of benefits (for future service) immediately before the new CARE scheme becomes operative.
42. Assembly Members who have contributed to and accrued benefits under the current pension scheme will have those accrued rights protected. The start date of new CARE schemes for much of the public sector will be 1 April 2015, and accrued benefits under their previous final salary schemes will be protected until April 2015. The Remuneration Board's proposal is to align the effective start date of the new CARE pension scheme with the start date of the Fifth Assembly in May 2016. This means that Assembly Members in the Fourth Assembly will accrue benefits under the current final salary scheme until the end of the Fourth Assembly in about April 2016, for around an additional year compared with much of the public sector.
43. One of the matters we have considered is whether the benefits the existing pension scheme members have accrued up to the date of closure should be linked to their pensionable salary as at the date of closure, or whether they should be entitled to a "final salary link". Providing a final salary link means that, while further pensionable service under the old scheme stops building up, the member's pension for their period of service in the old scheme is linked to their final salary when they reach normal pension age (or on leaving office as an Assembly Member if sooner).
44. Breaking the final salary link gives the greatest cost certainty as it prevents future salary increases increasing the scheme's liabilities and thus increasing cost. There is no legal requirement to retain that final salary link for accrued benefits; however retention of the salary link for past service has been a key feature of the reform of major public service pension schemes. For this reason we are minded to follow that approach and to retain the final salary link in respect of the accrued benefits under the old final salary scheme.

Question 9

Do you have any views of the proposal that the implementation of the new CARE pension scheme should be aligned with the start of the Fifth Assembly in May 2016, rather than with April 2015 as is the case for much of the public sector?

Question 10

Do you have any views on whether the final salary link should be maintained in respect of Assembly Members' accrued benefits under the existing Scheme?

II. Grandfathering (Transitional Protection)

45. "Grandfathering" encompasses a number of possible arrangements designed to protect older scheme members from being disproportionately affected by pension changes.
46. The public sector pension reforms have attempted to ensure that pension scheme members who are within a specified period of their normal pension retirement age under existing pension schemes will not see any change in their pension age, or any reduction in the pension benefits (including spouse/partner pensions) they receive. This means their pension benefits will be "grandfathered".
47. In all of the large public sector schemes, scheme members who were within ten years of their normal pension retirement age as at 1 April 2012, have been protected. They effectively continue to accrue pension benefits on a final salary scheme basis. Some public sector schemes have also included some degree of linear tapering for pension scheme members who were within, for example, 13.5 years of normal retirement as at 1 April 2012.
48. Providing grandfathering protection for older Assembly Members who are members of the current final scheme and continue as Assembly Members within the Fifth Assembly, for even a five year period from 1 April 2012, will give rise to a significant cost.
49. More than a third of the Assembly Members currently contributing to the scheme were within ten years or above their normal pension age as at 1 April 2012, and over half within (or above) 13.5 years of normal retirement as of that date.
50. Although all of the large public sector schemes have introduced ten years' grandfathering to at least April 2022 for older pension scheme members, there is no legal requirement to do so. A number of potential options are available. The main ones we are considering are:

- a. Grandfathering those Assembly Members who were within ten years of their normal retirement age (aged 55 or above) as at 1 April 2012 (the date selected by Government as being the relevant date for grandfathering protection or grandfathering purposes) until April/May 2022; or
 - b. For Assembly Members who will be aged 60 years or more as at the start date (1 May 2016) of the Fifth Assembly, grandfathering for the term of that Assembly (or for five years if longer than that term). 1 May 2016 is also the proposed effective start date of the new CARE pension scheme, thus linking the transitional protection or grandfathering to the term of that Assembly. The effect of this approach would be, in effect, to reduce the period of grandfathering as compared to a. above, by one year;
 - c. Grandfathering those Assembly Members who are within ten years of their normal retirement age as at 1 May 2016 (the start date of the Fifth Assembly);
 - d. Grandfathering all Assembly Members who were Assembly Members as at the start of the Fourth Assembly on 1 May 2011.
51. Option d. (above) would be significantly more expensive than the other options outlined. It would remove the majority of the potential employer cost savings available under the CARE pension scheme for a significant period. This option is also significantly more generous than any of the other public sector schemes. For this reason the Remuneration Board has decided not to pursue this option. Option c. is the next most expensive option and is also more generous than offered by other public sector schemes. We have decided not to consider this option in further detail.
52. The other two options a. and b. are closer to the approach taken in other public sector schemes. Option b) is less costly than option a. It ties the grandfathering transitional protection to a single Assembly term (or five years if longer) which may make the administration and funding arrangements of the new CARE scheme less complex.

Question 11

Which of the options a. and b.(above) do you consider to be the most appropriate?

53. It should be noted that by delaying the effective start date of the new CARE pension scheme until May 2016, all Assembly Members who are in service at the end of the Fourth Assembly will receive an additional year of final salary scheme pension benefits as compared to many of their public sector counterparts. In view of the cost of transitional protection and in order to provide benefits which are reasonably

equitable between older and younger scheme members, the Remuneration Board does not propose any additional tapering of the transitional provisions.

54. In order to maintain a balance against the cost to the tax payer, the Board is minded to offer grandfathered protection to those existing members of the Assembly Members' Pension Scheme who will be within five years of National Retirement Age (i.e. members aged 60 and above) on the first day of the Fifth Assembly. This grandfathered protection would continue until the end of the Fifth Assembly or 31 April 2021, whichever is the later. After this date all members of the Assembly scheme would accrue future benefits under the rules of the new scheme. It is proposed that the rate of spouse/partner pensions would be grandfathered at the 5/8ths rate applicable under the current final salary scheme for the term of the Fifth Assembly (or 5 years from 1 May 2016 if longer). Any changes to DiS rates or terms which would apply from the start of the Fifth Assembly would not be grandfathered, therefore those changes would apply to all Assembly Members in service as at the first day of the Fifth Assembly.

Question 12

Should further tapering of the grandfathering /protection provision be offered?

Question 13

What is your view on aligning spouse/partner pension grandfathering/protection with the same period as grandfathering for Assembly Members?

55. The total cost of the current pension scheme is 33.8% of salaries, with the Commission's contribution being at 23.8%, a rate which has been capped. We are advised that due to movements in life expectancy, inflation and investment performance that have occurred since the last valuation of the Members' Pension Fund in 2011, the total contribution rate that will be needed to ensure the current scheme is fully funded, assuming no changes in benefits, is likely to rise. The advice we have received has indicated that that cost could rise significantly following the 2014 valuation of the scheme. Given that the amount that the Commission has agreed to fund is limited to 23.8% this could mean that Assembly Members' contributions would either need to rise, or the benefits provided by the scheme would be reduced.
56. In other public sector pension schemes part of the cost of providing grandfathered benefits is spread across all members of the pension scheme, as well as the taxpayer through employer's contributions. If a similar approach were to be adopted for the Assembly Members' scheme it would mean that part of the future pension

contributions made by younger existing members of the scheme and all members joining after 1 May 2016 would be contributing towards the higher levels of benefit enjoyed by members who are grandfathered. An alternative approach would be to allow members who wish to receive grandfathered benefit to do so, but on the basis that their personal contributions need to stay at the level that would have been necessary if no changes were made to the scheme at all. If this were to be introduced members receiving grandfathered benefits under the old scheme rules would pay a higher contribution rate than members not receiving those higher rates of benefits.

Question 14

If grandfathering is offered, should the Assembly Members' proportion of the cost of providing grandfathered benefit be spread across all current and future members of the scheme, or should this be met only by Assembly Members wishing to receive grandfathered benefits?

H. Equality Impact Assessment

57. There is no legal requirement for the Remuneration Board to carry out a formal Equality Impact Assessment of our decisions. However, we consider this to be best practice and will be applying this approach to our work on pensions.
58. This means that we will consider the potential equality impact of our proposals on different groups of people. This concept applies to both existing and prospective Assembly Members.

Question 15

Do you consider that any of the CARE pension scheme proposals would disproportionately impact or disadvantage any particular groups of people?

I. Supporting financial information

59. The cost of providing pension benefits is estimated by the scheme's actuary. When changes are considered a number of assumptions are made relating to the demographics of the scheme members, the benefits provided, future inflation, earnings and investment returns. We have taken professional actuarial advice to carry out a series of calculations and develop a bespoke actuarial model. The assumptions make best estimates. They are based on factors such as the demographics of the current Assembly Members; possible changes to the individuals who are Assembly Members as at the start date of the Fifth Assembly; and actuarial and other financial assumptions. Because these are assumptions of unknown future variables, the outputs of the calculations are illustrative only.
60. The most significant variables influencing the cost of a future members' CARE pension scheme are the rate of accrual, the rate at which Career Average Earnings are revalued each year, and the level of survivor's pension and Death in Service benefit provided.
61. Table 2 below illustrates some of the actuarial modelling. It gives those responding to our consultation the broad financial context and approximate impact of the choices that must be made. The table provides estimates of the possible cost of funding a scheme assuming a DiS benefit of 2x salary is provided. DiS benefit is relatively easy to cost.
62. The table shows the cost of providing a pension using combinations of assumptions about:
- The accrual rate - 1/40, 1/50 and 1/60;
 - Spouse/partner pensions at a rate of 3/8 or 5/8 of deceased Assembly Member's pension; and
 - The rate at which Career Average Earnings are revalued – either CPI or CPI+1.
63. The cost of the pension is shown in total as a percentage of the salary of a scheme member, together with a split of the total between the taxpayer and scheme member. This is based on the assumption that the split is 60%/40%.
64. As mentioned, the figures presented below are illustrative and may differ from what is presented later in the year depending on the ultimate design of the scheme and other variables. The purpose of the table is to demonstrate the possible cost of different combinations of benefits.

65. We hope that providing this information will assist those responding to our consultation to provide informed responses to the questions answered in the earlier parts of this consultation. Illustrative models of the benefits offered by different types of pension schemes are available in our first consultation on this matter.⁶
66. All of the figures below include the cost of providing a DiS benefit of 2x salary. The approximate total cost of this benefit is 0.5% of salary. It is possible to approximate the effect on cost of changing the multiple of salary provided as DiS by adding or subtracting 0.25% from the total cost for each multiple of salary.
67. Table 3 below summarises the proposed accrual and revaluation rates adopted by some of the main public sector organisations for their CARE schemes to be introduced with effect from April 2015.

⁶ *Review of Assembly Members' Pensions Issues and Options September 2012*
http://www.assemblywales.org/memhome/pay-expenses-financial-interests-standards/mem-allow-pay-pensions/remuneration_board.htm

Table 2: Illustrative actuarial modelling of cost of future options for National Assembly for Wales Member' Pension Scheme

Accrual rate	Survivor pension	Death In Service	Cost					
			Assuming 60/40 split					
			CARE revaluation at CPI			CARE Revaluation at CPI+1%		
			Total	Member	Taxpayer	Total	Member	Taxpayer
1/40	3/8	2x	30.4%	12.2%	18.3%	33.5%	13.4%	20.1%
1/50	3/8	2x	25.2%	10.1%	15.1%	27.7%	11.1%	16.6%
1/60	3/8	2x	21.7%	8.7%	13.0%	23.8%	9.5%	14.3%
1/40	5/8	2x	31.9%	12.8%	19.1%	35.1%	14.0%	21.1%
1/50	5/8	2x	26.4%	10.5%	15.8%	29.0%	11.6%	17.4%
1/60	5/8	2x	22.7%	9.1%	13.6%	24.8%	9.9%	14.9%

Explanation of columns:

- Accrual rate is the proportion of salary accrued as pension each year (Section B);
- Revaluation rate (middle and right hand columns) is used to increase the value of each year of accrued pension until retirement (Section B);
- Survivor pension is the fraction of annual pension that would be paid to a spouse, partner or dependent after a member dies (Section F);
- The cost of providing a Death in Service benefit of 2x salary is included in all figures. The approximate total cost of this benefit is 0.5% of salary (Section E);
- The cost of grandfathered benefits for members within five years of NRA on 1 May 2016 is included for a period until the end of the Fifth Assembly or 31 April 2021, with the cost being spread across all Assembly Members and the Commission's contributions (Section G);
- The figures above a 1% cost for expenses associated with administering the scheme.

Explanation of data:

- Upper and lower half of the table show the effects of changing the survivor pension. A survivor pension of 3/8 of annual pension is less expensive;
- As accrual rate increases from 1/60 to 1/40 (first column) the total cost increases.
- As revaluation rate increases from CPI to CPI+1% (middle and right hand columns) the total cost increases;
- The most expensive option is an accrual rate of 1/40, survivor pension of 5/8 and revaluation rate of CPI+1%. Total cost would be 35.1%;

- The least expensive option is an accrual rate of $1/60$, survivor pension of $3/8$ and revaluation rate of CPI. Total cost would be 21.7%.

Table 3: Proposed accrual and revaluation rates for main public sector CARE scheme from April 2015

Body	Accrual rate	Employee contribution	Employer contribution	Active member revaluation rate	Deferred member revaluation rate	Normal Pension Age	Death in Service	Spouse pension
Westminster MPs	1/51st pa	46% of cost of scheme (Estimated 10.53%)	54% of cost of scheme (Estimated 12.37%)	CPI	CPI	SPA	2 x pensionable pay	3/8 th of annual pension
NHS	1/54 th pa	9.8% average (tiered contributions). AM salary would pay 12.5%		CPI + 1.5% pa	CPI	SPA	2 x pensionable pay	1/160 th (approx 33.75%) of final salary for each year of member's active service
Civil Service	1/43.1 pa	5.6% average (tiered contributions). AM salary would pay 8.06%		CPI	CPI	SPA	2 x pensionable pay	3/8 th of annual pension

Body	Accrual rate	Employee contribution	Employer contribution	Active member revaluation rate	Deferred member revaluation rate	Normal Pension Age	Death in service	Spouse pension
Teachers (TPS)	1/57 th pa	9.6% (with protection for lower paid)		CPI +1.6% pa	CPI	SPA	3 x FTE salary	50% of annual pension
Police⁷	1/55.3 pa	13.7% (tiered contributions)		CPI + 1.25% pa	CPI	60. Deferred pension age linked to SPA	3 x pensionable pay	50% of annual pension
Armed Forces⁸	1/47 th pa	None		Average Earnings	CPI	60. Deferred pension age linked to SPA	4 x pensionable pay	62.5% of annual pension

⁷ The Police have complex early retirement provisions and also provisions for additional lump sums on retirement and subject to conditions early retirement

⁸ The Armed Forces also have very complex early retirement/early departure payments (income plus lump sum) dependent on length of service as de facto compensation for short careers for the majority of those serving

Appendix A: Summary of responses to the Remuneration Board's first consultation

We ran our first public consultation on future pension for Assembly Members from September 2012 to January 2013.⁹ We received two formal responses to that consultation and have taken account of these during our review. These are summarised below.

- Changes should not be introduced until the start of the next Assembly term as this could impact on those Assembly Members considering standing down in 2016.
- The final salary link under the current benefit structure should be maintained for existing scheme members until the point of their leaving the Assembly, rather than up until any date of change of the existing benefits structure;
- In line with the findings of the Hutton review, the cash balance option should be discounted as it transfers too much risk to scheme members.
- The present facility permitting transfers-in and the purchase of added years should be removed under any new benefits structure as these add to the potential funding risk.
- Accrued rights should not be impacted by changes.
- Those scheme members within ten years of the Scheme's Normal Retirement Age should be grandfathered at the point of adoption of a new scheme.
- Consideration should be given whether any new scheme should contain an express amendment power, rather than relying on the amendment powers under the Government of Wales Act 2006, which set out which party would be responsible for making the changes to the scheme and the procedure by which those changes would be effected.
- The scheme's existing Rule of 80 should be closed, as this provides age discriminatory benefits to older members on early retirement. Scheme members with this continuing entitlement should be required to take early retirement on an actuarially reduced basis, as all other members since 2006/07.
- Any changes to the benefit structure should be subject to an Equality Impact Assessment so that all scheme members, pensioners, beneficiaries and potential scheme members are treated fairly. Early joiners should not do substantially better than those who join when the scheme matures.
- One respondent called for the current accrual rate of 1/40th to be maintained, as well as the Assembly Members' contribution rate of 10% of salary.
- Consideration should be given to the cost of administering the scheme as well as the possibility of merging it with other similar schemes.
- Given the small size of the scheme, the Board should investigate the possibility of insuring the scheme against multiple deaths.

⁹ *Review of Assembly Members' Pensions Issues and Options September 2012*
http://www.assemblywales.org/memhome/pay-expenses-financial-interests-standards/mem-allow-pay-pensions/remuneration_board.htm

Appendix B: Current pension arrangements

Pensions currently make up 19% of Members' total remuneration (basic salary and pension combined). The cost of the current scheme is 23.8% of Assembly Members' payroll.¹⁰

Assembly Members currently benefit from a final salary pension scheme. Table 1 provides an overview of the benefits of the current Assembly Members' pension scheme. The existing pension arrangements for Office Holders¹¹ who receive an additional salary (i.e. in addition to their Assembly Member base pay of, currently, £53,852) are already on a CARE basis in relation to that additional salary.

Main features of the current National Assembly for Wales Members' Pension Scheme¹²

Main features

Normal retirement age	65
Accrual rate	1/50 th or 1/40 th ¹³
Basis of pension	Final salary ¹⁴
Lump sum	By commutation
Standard Contribution Rate	34.3% ¹⁵
Member's contribution	10% for 1/40 th 6% for 1/50 th
'Employer' contribution	23.8%
Possibility for member to buy additional pension	Through additional voluntary contributions
Surviving spouse or partner's pension	5/8 th of member's pension
Death in Service	4 x pensionable salary
Office Holder contribution credits	Calculated on a CARE basis at accrual rate of 1/40 th or 1/50 th

¹⁰ The April 2011 pension scheme valuation recommended reducing the Commission contribution to 22.6% of payroll to allow for the surplus within the scheme. However, the trustees chose to maintain the existing employer contribution rate to allow for any future fluctuations.

¹¹ Presiding Officers, First Minister, Ministers, Deputy Ministers, Party Leaders, some Committee Chairs, Assembly Commissioners, Business Managers

¹² National Assembly for Wales Members' Pension Scheme <http://www.assemblywales.org/memhome/pay-expenses-financial-interests-standards/mem-allow-pay-pensions/mem-pay.htm>

¹³ 57 scheme members have opted to accrue their benefits at 1/40th

¹⁴ The Scheme rules refer to Final Salary as Terminal Salary.

¹⁵ 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, if there were no surplus or deficiency in the scheme.

Appendix C: What is a CARE scheme?

A CARE scheme is a type of defined benefit scheme. This means the pension received at retirement is defined by the rules of the scheme and once in payment, the amount of pension is guaranteed.

In a final salary pension scheme, such as the National Assembly for Wales Members' Pension Scheme, the pension payable is based on the number of years of service and the member's final salary at retirement. This means that under current arrangements the pension members receive on retirement is expressed as a fraction of final salary. Under a CARE scheme, the pension payable would instead be expressed as a fraction of salary during each year of service, revalued in line with an index. Earlier years of earnings can be revalued up to retirement in a number of ways, for example in line with price inflation (CPI or RPI), or in line with National Average Earnings.

CARE schemes are intended to provide employers with more certainty over future costs because they need not wait until the end of the member's working life to calculate the amount of salary on which the entire pension will be based.

The overall cost of a CARE scheme depends on the balance of:

- the accrual rate;
- the level of indexation, or revaluation of benefits after they are earned; and
- the normal pension age.

Different scheme designs benefit different individuals. For example, a scheme with a more generous accrual rate and a lower level of indexation could benefit those closer to retirement at the expense of those further away from retirement.

Revaluation of earnings up to retirement can be achieved in a number of ways. The most common approaches to revaluation for active members of a pension scheme are in line with inflation (as with the proposed changes to the Civil Service and NHS schemes from 2015) or with National Average Earnings (as with the proposed changes to the Armed Forces schemes).

If a CARE scheme were introduced, the Commission would still retain the majority of the risk, with the exception of the salary risk, but the scheme would reflect changes being made to public sector pensions generally. The relative levels of the index chosen for uprating benefits and the rate of growth of Members' salaries would impact on the cost of the scheme. As pension arrangements for Office Holders are already based on a CARE scheme, introducing a CARE scheme for all could result in greater simplicity.

More information on how a CARE scheme works is available here:

http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/hutton_how_care_works100311.pdf

Appendix D: Proposals for elected Members in other legislatures

As an independent Board, we are not required to follow the direction set by other review or remuneration bodies. Nevertheless, we are not the only remuneration body that is making changes to pension arrangements for elected representatives. In November 2013 the Independent Parliamentary Standards Authority (IPSA) issued its proposals for future pension arrangements for Members of Parliament. The main features of the proposed scheme are:

- Defined benefit scheme, based on career average revalued earnings (CARE).
- Based on a total cost of 22.9% of payroll (in comparison to 32.4% now).
- MPs will pay 46% of the total cost of the scheme, the taxpayer 54%, with a ceiling and floor arrangement to ensure stability in contribution rates and to protect the taxpayer from significant increases in cost. Members' contributions will therefore be 10.5% of salary and the taxpayer will pay 12.4% of salary into the pension fund.
- Retirement age to be the same as State Pension Age or 65, whichever is the higher.
- Accrual rate of 1/51st of pensionable salary each year.
- Revaluation rate equal to the increase in the Consumer Price Index.
- Death in Service to be 2x salary (4x currently) and survivor pension benefits to be 3/8 of members' pensions (5/8th currently). Transitional protection for MPs within ten years of retirement age on 1 April 2013.
- Some protection available to MPs between 10 and 13.5 years from retirement.

The independent panel that sets remuneration and allowances for Members of the Legislative Assembly in Northern Ireland is also carrying out a similar review. Its consultation was issued in February 2014 and proposes making changes to the current scheme so that Members elected into the next Assembly join a scheme that is in line with the changes being made to other public service schemes.¹⁶

The Scottish Parliament last reviewed the pension scheme for Members of the Scottish Parliament in 2009 – prior to the Hutton Report. No further review is currently being carried out.

¹⁶ *Northern Ireland Assembly Independent Financial Review Panel: Consultation on Assembly Members' Pension Scheme, February 2014*