Consultation on future pension arrangements for Assembly Members

Remuneration Board of the National Assembly for Wales

July 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

This document is a further stage of our consultation on future pension arrangements for Assembly Members. We are grateful to those who responded to the consultation issued earlier this year. These responses have been taken into consideration in producing the enclosed proposals on which we invite individual Assembly Members, party groups, the Trustees of the current scheme and the public to comment. Should individual Members have any queries they would like to discuss with us in detail please contact the Clerk to the Board.

Once we have considered any comments made in response to this consultation we will develop our final scheme, therefore Members are encouraged to use this opportunity to share their views with us. The new pension arrangements will be in place from the start of the next Assembly in May 2016. All benefits accrued before May 2016 under the existing scheme will be protected.

It is our commitment to finalise both the pension arrangements and the salaries for the Fifth Assembly by May 2015. This will ensure that those standing for election will know the level of total remuneration (base salary and Assembly Commission contribution to the new pension scheme) for Assembly Members in the Fifth Assembly.

Our aim in reviewing pensions for Assembly Members has been to put in place future arrangements that are fair in terms of risk sharing and total cost, and affordable to the taxpayer and to Assembly Members. Arrangements for Assembly Members must reflect the changes which are happening across the public and private sectors and affecting the people of Wales. Over time the changes will deliver cost savings for the taxpayer whilst still ensuring those who are elected to the Assembly receive appropriate provision for their retirement.

As a result of a Legislative Consent Motion passed by the Assembly in February 2013 the Public Sector Pension Act 2013 (PSPA), which provides the legislative framework for changes to public sector pension schemes, applies to the Assembly Members' Scheme. We must therefore follow many of the requirements set out in the PSPA when introducing any changes. The schemes for Members elected to the Northern Ireland Assembly and the Scottish Parliament are not subject to the requirements of the PSPA. In line with legislative requirements for the new scheme, changes will need to be made to the current governance arrangements. We will continue to discuss these matters with the Assembly Commission, Trustees of the current scheme and HM Treasury. We will also continue to take appropriate legal and actuarial advice as we conclude our work in this complex area, so that we develop a scheme that is robust, fair and fit for the long term.

Sandy Blair CBE

Chair / Cadeirydd

Y Bwrdd Taliadau / Remuneration Board

Purpose of this consultation

1. This consultation sets out the key features of the pension scheme that we are proposing for members of the National Assembly elected from 2016 onwards. We would welcome comments from any interested party on our proposals. We will consider any submissions before finalising our decisions.

This is our third consultation on Assembly Member pensions. The most recent consultation in April 2014 asked a series of detailed questions, explained our rationale for exploring various options and provided indicative costs for those options.[1] A summary of the five consultation responses we received is provided at Annex A. Two of these were from party groups, one was from the Trustees of the current scheme and two were from individual Assembly Members. The responses were not unanimous and many raised further questions.

We intend to finalise our decisions in this area by May 2015.

The consultation document includes:

a. the key features of the proposed new pension scheme;

b. examples of how the new pension scheme may operate in practice. These are included for illustration only;

c. a summary of the current and proposed pension arrangements for Members of Parliament in Westminster;

d. a summary of the responses to our April consultation;

e. the professional actuarial advice which has formed the basis of our proposals.

Responding to this consultation

The deadline for responses is 15 August 2014.

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

Remuneration@wales.gov.uk

[1] *Consultation on Future Pension Arrangements for Assembly Members, April 2014*
http://www.senedd.assemblywales.org/mgConsultationDisplay.aspx?id=125&RPID=1003431971&cp=yes

General principles

The Public Sector Pensions Act 2013 (PSPA)

2. The Public Sector Pensions Act 2013 (PSPA) provides the legislative framework for changes to the public sector schemes, including the Assembly scheme. In many areas we are bound by the PSPA which will therefore 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 discussed our proposals with HM Treasury to ensure that the arrangements comply with the requirements of the PSPA and will continue to do so.

Introducing a CARE scheme

3. The existing Assembly scheme will be amended to introduce a new Career Average Revalued Earnings (CARE[2]) 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, are already on a CARE basis. This will continue though the accrual rate will be altered so as to remain in line with the new scheme. There will be changes to some of the associated benefits, such as Death in Service and spouse/partner pension, for all Assembly Members and Office Holders.

Costs

4. Our proposed scheme structure has been developed with a view to:

   - Providing fair and affordable pension arrangements for Assembly Members in the future;
   - Ensuring the risks inherent in a pension scheme are fairly and equitably shared between Assembly Members and the taxpayer;
   - Ensuring that any changes are in line with wider changes in the public sector and the requirements of the PSPA;
   - Ensuring an appropriate total remuneration cost to the taxpayer;
   - Protecting benefits accrued to date.

5. The UK Government's public sector pension reforms have targeted an average cost ratio of 60:40 between employers and employees. In some of the new public sector schemes there will be tiered employee contribution rates in order to achieve that average ratio. Generally this means that higher paid employees will be paying a higher contribution rate than lower paid employees. Although the basic salary for Assembly Members is significantly higher than the average pay for public sector workers, all Assembly Members receive the same basic pay therefore tiered

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[2] *See Annex B for explanation*

contribution arrangements under the new Assembly Members' pension scheme are not considered to be appropriate.

6. 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. 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. As Assembly Members generally contribute 10% of their salary towards the scheme, the Assembly Commission's contribution - i.e. the part of the cost borne by the tax payer - is approximately 23.8%. The overall cost of providing the current scheme benefits is likely to increase in the future as a result of changes in assumptions made by the scheme's actuary relating to life expectancy and real discount rates in excess of CPI. The results of the triennial valuation, expected later in 2014, will give us information on the most recent position of the current scheme. We are working with the Trustees to obtain an earlier valuation from the Government Actuary's Department (GAD). This will mean that final decisions on the new scheme are informed by the most accurate and up to date information available.

7. Our proposal is to change the cost ratio to 60:40 so that a greater proportion of pension cost is borne by Assembly Members with a corresponding reduction in pension cost for the taxpayer. Based on current assumptions and actuarial calculations it is likely that the employee contribution rate will rise from the current rate of 10% to around 11% of salary. However, it should be noted that, at this stage, cost and contribution levels can only be indicative. By the time the new scheme is introduced in May 2016, the overall cost of the new scheme, the cost of protecting accrued rights under the old scheme, and the cost of transitional protection may be higher or lower than the current estimated cost.

8. Whilst the framework set out in this document forms the basis of our decisions at this stage, it should also be noted that at future triennial valuations the cost of the scheme may vary and may not necessarily be split in the same manner, due to the operation of the cost ceiling and floor. The cost ceiling and floor provisions are designed to protect the taxpayer from increasing cost and to ensure overall stability in the contribution rates made by scheme members. Our work is based on the best cost estimates available to us at this time.

Protecting accrued benefits

9. Assembly Members will have pension benefits accrued before May 2016 protected. This includes:

- all pension benefits (including spouse/partner pension benefits) accrued prior to May 2016 under the current scheme;

- any accrued pension benefits relating to transferred pension benefits from elsewhere into the scheme prior to May 2016, for example 'transfers– in' or Additional Voluntary Contributions (AVCs);

- the agreements within the current pension scheme under the 'rule of 80' (see below);

- pension benefits accruing before May 2016 in respect of Office Holder allowances.

10. Death in Service (DiS) lump sum benefits do not form part of the accrued pension benefits. The proposed change in the rate of DiS lump sum benefits referred to later in this document will apply to all Assembly Members from the start of the new pension scheme in May 2016.

11. The effective start date of the new CARE pension scheme will be aligned to the start date of the Fifth Assembly in May 2016. Other than those who will be subject to transitional protection, Assembly Members in the Fourth Assembly will accrue benefits under the current final salary scheme only until the end of the Fourth Assembly in about April 2016.

12. In line with the rest of the public sector the final salary link in respect of accrued benefits under the old final salary scheme will be retained. This 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 will be linked to their final salary on retirement or when they cease to be an Assembly Member. Under the current scheme the final salary is calculated on the basis of the actual salary paid in the 12 months prior to the Member leaving the Assembly, whether on retirement or at election, irrespective of whether they have worked beyond normal pension age. For those Members who choose not to take their full base salary entitlement, service is reduced on a pro-rata basis. There is no final salary link for benefits accrued under the current CARE scheme for Office Holders because of the nature of that scheme.

13. Where applicable, the 'rule of 80' in the current scheme means that members who have reached age 60 and have 20 years of qualifying service (total of 80) can draw their pension. This amount is not subject to actuarial reduction. The rule of 80 is only applicable to members who joined the scheme prior to 1 April 2007. There is a sliding scale for periods of service between 15 and 20 years. The reduction that applies is also influenced by the member's age.

14. In practice this means that pre 1 April 2007 members whose age and qualifying service does not equal 80, but exceeds a minimum figure of 66 (minimum age 50, minimum service 16 years) still benefit from a lower actuarial reduction. For post 1 April 2007 members a standard actuarial reduction factor is applied which is again age related. In all cases the factors to be applied are provided by the scheme actuary and are regularly reviewed so that this arrangement is broadly cost neutral.

15. There will be no rule of 80 provision in the new scheme. This arrangement therefore will not apply to early retirement provisions under the new scheme. However, for those Members who were pension fund members prior to 1st April 2007 service after May 2016 will continue to be taken into account when deriving the qualifying service element of the rule of 80 calculations.

Total remuneration

16. We will confirm the total remuneration package for Members in the Fifth Assembly (salaries plus the taxpayer contribution to the new pension scheme) in May 2015, a year before the next Assembly election. We have presented our pensions options earlier, but will be consulting publicly on options for salaries in the next Assembly from September 2014.

Methodology

17. We have taken legal advice from Wragge and Co. and actuarial advice from PwC in drawing together these proposals. In arriving at our outline scheme we commissioned the Government Actuary's Department, the actuaries to the current Members' scheme, to carry out detailed costing and modelling of our proposals.

18. It has been necessary for us to make assumptions as we undertake modelling and calculate estimated costs. The methodology and assumptions used to cost the proposed scheme are consistent with those used for scheme reform costing that GAD has undertaken for other public service pension schemes. The membership data used to determine the costs is the most recent full membership data used for actuarial valuations of the current scheme. Assumptions have been made in relation to such matters as the change in the age membership profile of the scheme and turnover at the May 2016 election. Member turnover assumptions are in line with those used for the 2011 valuation of the current scheme. Further information is contained in Annex C.

19. We have taken account of the guidance set out in HM Treasury's reference scheme, against which reforms to public service pension schemes are being developed, and likely changes being made to comparable schemes, most notably the arrangements for Members of the UK Parliament, and the Northern Ireland Assembly

20. The 'employer' cost of the current Assembly Members' pension scheme is capped so that it cannot exceed 23.8%, its current rate. It is a well-managed scheme and to date it has not been necessary for us to revisit this cost cap, or consider any adjustments to employee contributions or benefits that might arise from any scheme deficit. The increasing cost of providing the current pension benefits in the long term could mean that some adjustment is necessary in the future, either by adjusting the benefits or the contribution rates of scheme members. The results of the triennial valuation, expected later in2014, will give us information on the most recent position of the current scheme.

21. Our proposals are based on the following:

- Our starting point was that costs of the new scheme should be within the boundaries set out in H M Treasury's Reference Scheme[3]. Assembly Member contribution rates will –be around 11%;
- the 'employer' cost will be lower than the current 23.8% to ensure long term sustainability;
- the accrual rate in the Treasury's reference scheme is 1/60th of salary – we are proposing a higher accrual rate of 1/50th of salary;

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[3] *HM Treasury,* *Public service pensions: good pensions that last*

- the employer and employee cost split will be 60:40, in line with arrangements across much of the public sector aimed at reducing the cost to the taxpayer;

- in line with the PSPA there will be a ceiling and floor arrangement to ensure stability in contribution rates and to protect the taxpayer from significant increases in cost;

- the revaluation rate will equal the increase in the Consumer Prices Index (CPI);

- there will be transitional protection (grandfathering) for those within 10 years of normal retirement age on 1 April 2012 (i.e. members who were 55 or older on this date);

- Death in service and surviving spouse/partner pension benefits will be available under the new scheme, although at reduced levels as compared to the current scheme. We are proposing a survivor's pension of 1/2 of the member's pension, and DiS to the value of 2 x salary.

Main benefits

22. The following table sets out the main benefits in the proposed pension scheme. An explanation for how we arrived at these proposals is provided in the subsequent pages of this document.

Main benefits	
Type of benefit	Career Average Revalued Earnings
Revaluation	CPI
Pension increases	CPI
Annual accrual rate	1/50th of earnings
Normal Retirement Age (NRA)	Age 65 for each individual or State Retirement Age if greater
Surviving spouse/partner pension (in the event of death once pension is in payment)	1/2 of actual pension payable at point of death[4]
Surviving spouse/partner pension (in the event of death in service)	1/2 of pension that would have accrued by Normal Retirement Age[5]
Surviving spouse/partner pension (in the event of death of deferred pensioner)	1/2 of deferred pension payable at point of death[6]
Death in service lump sum	2 x salary
Ill-health retirement benefits	In line with current scheme arrangements
Commutation factors	Consistent with current methodology
Early / late retirement	Consistent with current methodology
Standard Contribution Rate based on HM Treasury financial assumptions	27.6%[7]
Member's contribution based on HM Treasury financial assumptions	11.0%
'Employer' contribution based on HM Treasury financial assumptions	16.6%
Member/Employer contribution split	60:40
Additional Voluntary Contributions	The Board is exploring the possibility of putting in place an arrangement whereby Assembly Members may make Additional Voluntary Contributions on a defined contribution basis to a top-up money purchase scheme pension.

[4] *Under the current scheme the surviving spouse/partner would receive 5/8 of actual pension payable at point of death.*

[5] *Under the current scheme the surviving spouse/partner would receive 5/8 of pension that would have accrued by Normal Retirement Age.*

[6] *Under the current scheme the surviving spouse/partner would receive 5/8 of deferred pension payable at point of death.*

[7] *This includes the estimated cost of providing transitional protection, which is 1.2% of payroll for five years. Only the cost of future accrual is shown. The figures do not allow for contributions required to remove any past service deficit. In the letter from GAD, which can be found at Annex C, alternative assumptions are also provided.*

Pension arrangements for Office Holder salaries	Benefits accrued up to May 2016 will be protected. All Office Holder salaries will be subject to the new arrangements from the start of the Fifth Assembly, including for those Assembly Members who are eligible for grandfathering.
Transitional Protection (grandfathering)	Five years' transitional protection from May 2016 for those within 10 years of Normal Retirement Age at April 2012.
Rule of 80	Available only to those with continuous scheme service from prior 1 April 2007 until the date of their early retirement.

Our proposals

Career Average Revalued Earnings (CARE)

23. The new scheme, to be introduced from the start of the Fifth Assembly, will be a CARE scheme. A CARE scheme provides a fair balance between the cost and risk to the taxpayer and the Assembly Member pension benefit.

Scheme operation

24. New arrangements will be implemented by amending the existing scheme. We have consulted HM Treasury who advise that these changes will, in effect, constitute a new scheme and therefore be subject to the requirements of the PSPA.

Revaluation and pension increases

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 majority of the large public sector employers have decided to select a revaluation rate computed by reference to changes in the CPI rather than by reference to changes in earnings. The Remuneration Board proposes a similar approach.

26. Pension increases will also be in line with CPI.

Annual accrual rate

27. We received mixed and conflicting responses to questions about accrual rates in our most recent consultation. All agreed that there should be a single accrual rate under the new scheme to ease administration and understanding. One response called for the current 1/40th accrual rate to be maintained whilst another response indicated that the accrual rate should be in line with the rest of the public sector. HM Treasury's reference scheme includes an accrual rate of 1/60th of salary, whilst the future scheme for MPs will be 1/51st.

28. We are proposing an accrual rate of 1/50th of pensionable salary. This rate, in our view, provides an appropriate balance between cost to the taxpayer and benefits to Assembly Members. When considered alongside other aspects of the new scheme's design, this is also an affordable accrual rate. It is significantly more generous than the accrual rate of some of the other public sector schemes, which we believe is justified given the uncertainty surrounding the length of time an individual will serve as an elected representative.

Normal Retirement Age (NRA)

29. As part of its reform of public sector pension schemes the UK Government has specified that the NRA should be the higher of an individual's State Pension Age (SPA) and 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.

30. The Pensions Act 2014 provides for a regular review of the SPA, at least once every five years. The Government has not given any indication of intention to revise the existing timetables for the equalisation and increase of SPA though this could change as a result of a future review.[8]

Date of change	State Pension Age (Male and Female)
2018	65
2020	66
2026	67

31. In line with the PSPA requirements the NRA under the new CARE pension scheme will be the higher of 65 and the individual's SPA.

Death in Service and surviving spouse/partner pensions

32. Spouse pensions in relation to accrued rights will be at the rate under the current scheme – i.e. 5/8th of the Member's salary. For those Members who are eligible for transitional protection (grandfathering), this rate will continue to apply for the five year grandfathering period. However, there will be a change to the Death in Service lump sum for all from the start of the next Assembly and a change to the future rate for the surviving spouse/partner pension.

33. In our previous consultation we set out options on the cost of various DiS lump sum benefits and surviving spouse/partner pensions. We proposed at that stage that surviving spouse/partner pension should be 3/8ths (37.5%) of the deceased's pension.

34. The majority of those who responded to our consultation felt that the current rate of DiS lump sum (4 x salary) and survivor/spouse pensions (5/8ths) should be maintained and that, whilst rare, this was an important benefit that provided security for an Assembly Member's family and dependents. Having considered the various consultation responses and the relative merits and cost of DiS and survivor pensions, we now propose that the level of DiS lump sum benefit will be 2 x salary with a surviving spouse/partner pension of ½ of the member's annual pension. Although having a higher percentage of surviving spouse/partner pension may be more expensive than, for example, increasing the DiS lump sum multiple to 3 or 4 x salary, we have concluded that, overall, survivor's pension is a more appropriate way to make provision for a deceased member's family.

35. In our April 2014 consultation document we explained that the cost of providing a DiS benefit rises rapidly as the age of a member increases. We presented a number of models that could be used to limit this benefit by age. We received mixed and conflicting responses to this aspect of our consultation: some respondents suggested that this could act as a disincentive for those considering standing for election; others felt that it would discriminate against older Assembly Members; some favoured the proposal.

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[8] *State Pension Age timetable, UK Government policy paper, https://www.gov.uk/government/publications/state-pension-age-timetable*

36. We have considered the cost, complexity and equality issues surrounding DiS in some detail and will not be limiting the DiS benefit by age or seeking to taper the DiS for Assembly Members who remain in service beyond NRA, save that the DiS benefit will cease for Assembly Members who continue to serve after age 75 .

Commutation factors

37. The existing scheme provides commutation of pension for lump sum at retirement on cost neutral terms. As the terms are cost neutral we will not be amending this arrangement and it will continue on similar terms in the new scheme. We will ask the Trustees of the scheme to ensure that these factors are regularly reviewed and updated by the scheme actuary.

Early/late retirement and Rule of 80

38. For both early and late retirement the existing arrangement will remain. We will protect the benefits that existing scheme members accrued prior to May 2016 under the current scheme. We will also maintain the 'rule of 80' arrangements, which are available only to those with continuous scheme membership from prior to 1 April 2007 until the date of early retirement. The 'rule of 80' early retirement terms will only apply to existing scheme membership, and will not apply to CARE benefits accrued from May 2016. The current arrangement for late retirement will remain on similar terms under the new scheme.

Accrued Rights

39. 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, save for those Assembly Members who are eligible for transitional protection.

40. Assembly Members who have contributed to, and accrued benefits under, the current pension scheme prior to May 2016 will have those accrued rights protected, including those arising as a result of, AVCs, 'transfers-in' and under the Office Holders current CARE scheme. The start date of new CARE schemes for much of the public sector, including the UK Parliamentary pension scheme, will be 1 April 2015. Accrued benefits under their previous final salary schemes will be protected until that date. 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, i.e. for around an additional year compared with much of the public sector.

Transitional protection or 'grandfathering'

41. 'Grandfathering' is designed to protect older scheme members from being disproportionately affected by pension changes. The public sector pension reforms aim to ensure that pension scheme members who are within a specified period of their normal pension retirement age will not see any change in their pension age or any reduction in the pension benefits (including spouse/partner pensions) they receive.

42. In our last consultation document we proposed that those within 10 years of retirement at April 2012 would have five years of transitional protection from the start of the Fifth Assembly. We continue to believe that this date and the five year transitional protection period are appropriate. Members of the current Assembly who are re-elected to the Fifth Assembly (from May 2016) and were aged 55 or more on 1 April 2012 will continue to accrue benefits under the current final salary scheme terms for the duration of the Fifth Assembly. An exception will be their entitlement to lump sum death in service benefit which will be on the new benefit structure. Assembly Members who meet the requirements for transitional protection who are Office Holders in the Fifth Assembly will not have transitional protection in respect of the Office Holder element of pension. That element of their remuneration will be subject to the same terms – for example the accrual rate and spouse/survivor pensions - as those for Assembly Members who are not grandfathered.

43. Transitional protection will not continue beyond the five years of the Fifth Assembly in May 2021. We are proposing this fixed period of transitional protection because it is not unusual for Assembly Members to continue in service beyond Normal Retirement Age. Having an open ended period of transitional protection for eligible Assembly Members could therefore give rise to a significant additional cost and a potentially unfair burden of costs falling on all other Assembly Members. Having a finite period of transitional protection, in our view, provides an appropriate balance of cost and benefit.

44. From the beginning of the Sixth Assembly all members of the Assembly scheme will accrue future benefits under the rules of the new scheme.

45. The rate of spouse/partner pensions for Assembly Members who are eligible for transitional protection will 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). Entitlement to DiS will not be grandfathered, therefore those changes will apply to all Assembly Members in service as at the first day of the Fifth Assembly (see above).

46. 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.

47. The assumptions used to inform our decision in this area indicate that 43% of current Members would be entitled to transitional protection. The average age of those scheme members is 66 and a significant proportion may leave the Assembly at the next election. The turnover

assumptions adopted for the 2011 valuation suggest that only around 17% of Members would be entitled to transitional protection following the 2016 election. We recognise that the levels of turnover vary from election to election and that this will have an impact on the cost of transitional protection. Nonetheless, on those assumptions, the cost of providing this proposed protection is estimated at around £250,000 – approximately 1.2% of total payroll for five years (i.e. £40,000 pa). This figure relates only to the future cost of 'grandfathering' and does not cover any additional contributions that may be required to protect accrued benefits, should future actuarial valuations (including the 2014 valuation) require these.

Additional Voluntary Contributions and transfers-in

48. 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) and/or transferring the value of pension benefits arising from previous employments. AVCs and transfers-ins enable Assembly Members to purchase additional years of service credit which may not necessarily reflect their length of service as Assembly Members. This option carries a funding risk for the pension scheme in the future.

49. Some of the responses to our April consultation advocated the continuation of the current facility to make AVCs. There is no legal requirement to provide an AVC facility within the proposed new CARE pension scheme. Doing so could increase funding risk, administrative complexity and the 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.

50. We maintain our position that the new CARE pension scheme will not include the facility either to buy added years of service credit or for AVCs to be payable on a defined contribution basis. Transfers-in to the new scheme from other pension schemes will also not be permitted.

51. 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. We will liaise with the Assembly Commission to explore whether such a scheme could be set up and administered so that those Members who wish to make individual AVCs can do so. There will be no related 'employer' contribution.

Annex A: Summary of previous consultation responses

Cost allocation

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?

The majority of responses to this question acknowledged that the proposed new CARE scheme should be implemented, in line with changes taking place in other public sector pension schemes.

Responses also outlined that, without an understanding of the overall remuneration package proposals, including salary proposals, it would be difficult to place many of the pension proposals into a practical example.

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

Many responses felt that 25% would represent a fair figure in relation to Assembly Commission contributions to the pension scheme. However, responses also identified the need to understand the overall remuneration package before deciding an appropriate figure.

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

Responses to this question were wide-ranging. Most of those who responded felt that the position adopted in other public sector schemes should be followed with a move towards a 60/40 split.

Accrual and Revaluation Rates

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?

The majority of respondents felt that one accrual rate should be adopted in the new CARE scheme, in line with schemes elsewhere and in order to keep administration costs down. One respondent asked whether the Board had considered allowing Members to accrue at a higher rate if Members were willing to pay for that higher rate themselves, at no cost to the Assembly Commission.

Additional Voluntary Contributions

5. Should we permit Additional Voluntary Contributions to the new scheme?

All of those who responded felt that Assembly Members should have the opportunity to make additional voluntary contributions in the new scheme. All AMs are subject to election and the possibility of removal from their position every five years. In some cases, there may be no opportunity to return to their previous occupation. They may therefore be unable to accrue sufficient pension if the ability to purchase Additional Voluntary Contributions is removed.

Death in Service Benefits

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?

All respondents felt that Death in Service, whilst rare, is a very important benefit and that proposed changes to this would carry no justification. Many felt that, as age is no barrier to becoming a Member of the Assembly, older Assembly Members should not be discriminated against by receiving lesser benefits than their younger colleagues.

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?

There were differing responses to this question. Many felt that a cut off point should not be put in place as it would be a disincentive to potential candidates to become Assembly Members and that it would discriminate against older Assembly Members.

Others favoured a cut off point and tapering. Some broadly supported the Board's proposals .

Surviving Spouse/Partner pensions

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

All of those who responded stated that this benefit should remain in the new scheme, with one respondent suggesting that the current rate of 5/8th was appropriate.

Transitional Protection: Accrued Rights

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?

All respondents agreed with the Board's indication that the current accrued pension rights should be protected. Some re-iterated the importance that this protection should include any rights enjoyed by members who have imported pension contributions from elsewhere into the scheme.

All stated that May 2016 (the start of the new Assembly) is the correct date to introduce the new CARE scheme as existing Assembly Members should retain their accrued rights until the end of the fourth Assembly.

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?

One response said that the Remuneration Board's proposals on Resettlement Grant have a bearing on how people will view these proposals, particularly Members within a few years of their retirement age.

All of those who responded stated that the final salary link should be maintained as it is elsewhere in wider public service pensions.

Transitional Protection: Grandfathering

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

There was a wide range of responses to this question. Some questioned why the grandfathering conditions set out in the initial consultation are less generous than those afforded to MPs in the House of Commons. Some felt that accrued rights, including contractual rights, should be protected. This should include agreements made by the Pension Fund under the 'rule of 80'. One respondent argued that grandfathering could be afforded to any Assembly Members over 50 years old.

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

All respondents felt that tapering should not be offered and that it would be appropriate for the new scheme to follow the generally accepted approach taken in other public service pensions.

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

All of those who responded to this question stated that grandfathering should apply to all accrued rights including those for spouse/partner benefits.

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?

There were differing views on this question. Some felt that the scheme should only be paid for by those Members who wish to receive grandfathering benefits.

Others felt that grandfathering rights should be paid for by all who were Assembly Members on 1 January 2014.

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

All respondents felt that the Board's proposals would not disproportionately impact or disadvantage any particular groups of people.

Annex B: 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. 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).

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.

Under a CARE scheme, the taxpayer (through the Assembly Commission) would still retain the majority of the 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

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1 July 2014

Dear Mr Blair

National Assembly for Wales Members' Pension Scheme

1. Thank-you for your letter of 2 June regarding the review of the National Assembly for Wales Members' Pension Scheme (NAfW MPS) by the Remuneration Board. In your letter you asked GAD to calculate the cost of the proposals set out in Annex 1 of the letter, for a new benefit structure for Assembly Members (AMs), to be introduced from May 2016. In addition, the Secretariat provided amendments to the proposed benefit structure in emails of 24 June, 30 June and 1 July.

2. GAD are appointed by the Trustees of the NAfW MPS as Actuary to the scheme. The Trustees have agreed that the Remuneration Board may commission calculations (but not advisory work) in relation to the scheme directly from GAD, and that GAD can report this work back to the Remuneration Board without copying the work to the Trustees.

Proposed new benefit structure for AMs

3. Your letter and the Secretariat's emails set out the main elements of a proposed new benefit structure for AMs, with the following features:

- Career Average Revalued Earnings (CARE) scheme
- Revaluation of benefits in line with CPI
- Pension increases in line with CPI
- Normal Retirement Age (NRA) of 'age 65 for each individual or State retirement Age if greater'
- Transitional protection available for members within 10 years of retirement at April 2012, lasting for five years
- Accrual rate of 1/50ths
- Survivor pensions at rate of half of the member's pension (before commutation), with enhancement to NRA if member dies in service
- Early retirement factors consistent with current methodology (ie cost neutral early retirement terms)
- "Rule of 80" available only to those with continuous scheme service from prior to 1 April 2007 until the date of early retirement
- Late retirement factors consistent with current methodology (ie no late retirement uplifts)
- Commutation factors consistent with current methodology (ie cost neutral commutation terms)

- Death in service lump sum of two times salary.

4. We have a few comments on the benefit structure, in particular to clarify a couple of areas.
5. **NRA** - NRA of 'age 65 for each individual or State retirement Age if greater' is assumed to include the existing legislation to increase State Pension Age to 66, 67 and 68[9].
6. **Rule of 80 –** We assume that the 'rule of 80' favourable early retirement terms will only apply to existing scheme service, and will not apply to CARE benefits accrued from May 2016.
7. **Benefit limits** - We have assumed that there will be no limit on the levels of benefits accrued in the proposed new scheme, and as such have valued the proposal with no limits applying.
8. **Transitional protection** – We have assumed that "members within 10 years of retirement at April 2012" covers members age 55 or over on 1 April 2012.

Data, methodology and assumptions

9. Annex 2 to your letter sets out the actuarial assumptions to be used in the costings. This states that the actuarial assumptions should be consistent with those required for the purpose of setting the employer cost cap under HM Treasury directions, and that the actuarial basis should anticipate likely GAD views on appropriate actuarial assumptions for the formal actuarial valuation of the scheme due as at 1 April 2014.
10. Subject to the limitations described in paragraphs 42-43, the data, methodology and assumptions used in this note are in our view suitable for the purposes of costing the proposed scheme for AMs. Where appropriate, we have used methodology and assumptions that are consistent with those used for scheme reform costings that GAD has undertaken for other public service pension schemes.
11. The membership data used to determine the costings is the most recent full extract of membership data used for actuarial valuations of the scheme (data as at 1 April 2011) and is summarised in Appendix 1. This was extensively reviewed and is sufficiently robust for the purpose of these calculations.
12. The methodology used to determine the costings in paragraph 23 is the standard actuarial methodology known as the Projected Unit Method with a one year control period.
13. An Assembly Election is expected in May 2016 and as such the membership profile of the scheme is expected to change considerably at that time, and indeed the membership profile of the scheme moves in cycles in line with Assembly terms. The membership immediately after an Assembly Election will be up to five years younger and have up to five years less service than the membership just before the following Assembly Election. The costings would vary depending on the membership profile used.

[9] https://www.gov.uk/government/publications/state-pension-age-timetable

14. You have asked us to provide the cost of benefits accruing over one year from May 2016. Your letter refers to the five yearly election cycle and the unpredictable outturns of the elections generating statistical or systematic fluctuations in reported costs. In order to illustrate this, we have costed the scheme as at three dates:-

- As at the middle of the current term, using the membership data as at 1 April 2011 assuming no changes to the membership since then. This gives an average cost for accrual during the current term.
- As at May 2016. As instructed, we have used the turnover assumptions used for the 2011 valuation to estimate what proportion of current members will be re-elected in May 2016, and this results in 35 AMs being re-elected. The 25 AMs assumed to be newly elected are assumed, as instructed, to have an average age of 50.4 years
- As at the mid-point of the 2016-2021 term, by using the sample membership following the May 2016 Assembly election, and assuming no changes in membership following that date. This illustrates how the cost changes as the membership ages during the term, and shows how cost may vary from term to term depending on the different profile of the membership.

15. A calculation date of 2016 has been assumed for the purposes of determining the mortality assumptions to use.

16. You have indicated that members within 10 years of retirement at April 2012 would be entitled to transitional protection and remain on their current benefit structure for a further five years. The costs given in paragraph 23 for the proposed new scheme have been assessed across members of all ages (including those aged over 60), and do not take account of protection for those age over 60. The figures therefore represent the long-term cost once all members entitled to protection have either left the Assembly or moved to the new benefit structure. Paragraphs 27-32 discuss protection, and the impact and cost this will have on the scheme in the short term.

17. As instructed, we have calculated the cost of the proposed new scheme using the financial assumptions set out under the HM Treasury Directions for setting the employer cost cap in other public service pension schemes. Please note that this is not the same as setting the assumptions according to the HM Treasury process for setting a cost ceiling as part of the scheme reform process in other public service pension schemes. We have also calculated the cost using the financial assumptions that were used for the valuation of the scheme as at 1 April 2011.

18. The assumptions adopted for actuarial valuations of the NAfW MPS are based on market conditions at the valuation date, and so could vary from valuation to valuation. We have not yet considered the financial assumptions that might be used for the 2014 valuation of the scheme.

Table 1: Financial assumptions

	HM Treasury directions	NAfW MPS 2011 valuation financial assumptions
Real discount rate in excess of CPI	3%	3.5%
Nominal discount rate	5%	6.6%
CPI increases	2%	3%

19. The demographic assumptions used are in line with those adopted for the 2011 actuarial valuation of the scheme, as follows:

- Baseline mortality in line with SAPS light tables
- Improvements in post-retirement life expectancy in line with the ONS 2010-based principal population projections (except Year of Use 2016 has been used rather than Year of Use 2011 that was used for the valuation)
- Assembly Elections taking place every five years, the next election taking place on 5 May 2016, with a proportion of members assumed to leave at each Election
- For other demographic assumptions, as used for 2011 actuarial valuation of the scheme.

20. The HMT Directions require the use of the ONS 2012-based principal population projections rather than the 2010-based projections, however there is very little difference between the two sets of projections, and so we have continued to use the 2010-based projections which were used for the

2011 actuarial valuation of the scheme. We will be reviewing the mortality assumptions to use for the 2014 valuation of the scheme.

Projection of membership

21. Table 2 below shows the profile of the membership immediately before the May 2016 election (assuming no movements since the 2011 election).

Table 2: Profile of membership immediately before May 2016 Election

Age	Number	Proportion re-elected	Number re-elected
Under 63	43	75%	32
63 to 75	16	20%	3
Over 75	1	0%	0

22. This results in 35 AMs re-elected in May 2016, and so a further 25 new AMs are assumed to be elected. We have been instructed to assume that the average age of new joiners at the 2016 election should be 50.4 years (which is the same as the actual average age for new joiners at the 2011 election) and that 50% of the new joiners are male and 50% female.

Results

23. Table 3 below sets out the total cost (ie employer and employee combined) of the proposed new scheme for AMs using the two sets of financial assumptions, and as a comparison the cost of the current NAfW MPS as assessed at the actuarial valuation of the scheme as at 1 April 2011.

Table 3: Cost of Proposed new scheme and current NAfW MPS

Scheme	Proposed Scheme	Proposed Scheme	Current NAfW MPS
Financial assumptions used	HM Treasury directions financial assumptions	NAfW MPS 2011 valuation financial assumptions	NAfW MPS 2011 valuation financial assumptions
Mid-point of current term	26.0%	23.4%	35.3%
May 2016 (following election)	24.3%	21.7%	-
Mid-point of 2016-2021 term	26.4%	23.9%	-

24. The figures show the total cost of benefits accruing in the scheme, including the cost of the lump sum and enhanced partners' benefits payable on death in service with no deduction made for member contributions. As instructed, we have included an allowance for expenses, of 1% of pay. Only the cost of future accrual is shown, and the figures do not allow for contributions required to remove any past service deficit. Further details of the benefit structure of the proposed scheme which we have valued are shown in paragraph 3.

25. The figures calculated using the financial assumptions in the HM Treasury directions are higher than the equivalent figures calculated using the 2011 valuation assumptions, due to the lower net discount rate in the HM Treasury Directions.

26. The figures for May 2016 (at the start of the Assembly term) are lower than at the mid-point of the term, as the younger age profile at the start of a term leads to a lower cost. For a funding valuation of the scheme, and to calculate any cost cap, we would use the mid-point of the term, to alleviate the effect of the membership ageing during a term. The differences between the costs at the mid-point of the current and next terms illustrate the effect of changes in membership profile from term to term.

Transitional protection

27. The Secretariat's email of 30 June sets out proposals for transitional protection, whereby AMs who are within 10 years of retirement at April 2012 would stay in their existing scheme for a further five years.

28. Table 4 below shows the number of AMs who would be entitled to transitional protection as set out in the proposal. These figures are calculated using the membership data supplied for the valuation as at 1 April 2011, and allows for member movements at the May 2011 Assembly election.

Table 4: Numbers of members entitled to protection

	Number of members	Proportion of members	Average age 1 May 2016
Transitional protection	26	43%	66
No protection	34	57%	50

29. This shows that 43% of current AMs would be entitled to transitional protection. However the average age of those members is 66, and so a large number would be expected to leave the Assembly at the next election in May 2016. Using the turnover assumptions adopted for the 2011 valuation, Table 5 below shows the expected number of AMs following the election in May 2016 who would be entitled to protection.

Table 5: Expected number of members with protection following May 2016 election

	Number of members	Proportion of members
Transitional protection	10	17%
No protection	50	83%

30. Therefore even though 43% of current AMs would be entitled to transitional protection, only around 17% of AMs in the scheme following the May 2016 election would be entitled to transitional protection. However please note that the levels of turnover vary from election to election, and it is possible that there is lower (or higher) turnover amongst this group of members than that assumed in calculating these figures.

31. The impact of granting protection is that following the May 2016 election, the overall cost of the scheme will be higher than that shown in Table 3, as there will be some members continuing to accrue benefits on the existing benefit structure, which has a higher cost than the proposed new scheme. We have estimated the cost of providing protection as around £250,000, which is equivalent to around an additional 1.2% of total payroll for five years.

32. The exact split of members accruing benefits in the old and new schemes, and overall cost, will not be known until after the election.

Future Assembly costs

33. The figures in Table 3 do not reflect the different contribution rates that will emerge from future actuarial valuations of the scheme following implementation of scheme reforms. Emerging valuation results may differ from the costings, by up to several percent of pensionable pay or more, for reasons such as:

- The data, methodology and assumptions used in the costings will differ from those used in future valuations of the scheme
- The profile of the membership in the 2016-2021 Assembly term may differ from that in the current term
- The costings value benefits accruing to AMs; they do not include adjustments for any deficit or surplus in the scheme in respect of past service
- The figures show the total cost of benefits accruing, inclusive of member contributions – the level of member contributions (when determined) will need to be deducted to give the Assembly cost
- The costings value the CARE Scheme for all members, whereas some members may be entitled to protection and continue to accrue benefits on the existing NAfW MPS benefit structure

and the above list may not be exhaustive.

Consistency with 2014 valuation

34. We have not yet considered the financial or demographic assumptions to use for the valuation of the NAfW MPS as at 1 April 2014, and we may also refine our calculation methodology for the valuation. Due to the tight timescale to provide the figures in this letter, there has not been enough time to do this for providing these costings, and as such the methodology used for the 2011 valuation of the scheme has been used.

35. We will be able to reconcile the final valuation results with the figures given in this letter, but please note that there may be differences between the two figures.

HMT directions

36. We note that the proposal includes an employer cost cap to be in accordance with HMT Directions. The Directions issued have so far been used for large public service pension schemes, most of which are unfunded, though there are specific provisions for LGPS, which is a funded scheme.

37. There are other smaller schemes, including NAfW MPS, which may fall under the Public Service Pensions Act (either immediately or in due course) as a "New Public Body Pension Scheme". The Directions have specific provisions for such schemes, though it is not clear if the NAfW MPS is a New Public Body Pension Scheme. It may be worth the Remuneration Board discussing with HM Treasury what requirements there may be under the PSPA for cost-capping.

Limitations

38. A number of limitations apply to the costings shown in paragraph 23. These are described below, broken down into the following categories: purpose of costings; data, methodology and assumptions; and third party reliance and liability.

Purpose of costings

39. The purpose of the costings is to provide the Remuneration Board with the cost of the proposals for AMs as set out in your letter of 2 June and the Secretariat's emails of 24 June, 30 June and 1 July.

40. The purpose of the costings in this letter are not to set an 'employer cost cap' for the scheme going forward.

41. The costings do not reflect the different contribution rates that will emerge from future actuarial valuations of the scheme following implementation of scheme reforms. Emerging valuation results may differ from the costings, by up to several percent of pensionable pay or more, as discussed in paragraph 33.

Data, methodology and assumptions

42. The costings are sensitive to the data, methodology and assumptions adopted.

43. If the Remuneration Board have a figure in mind for an overall maximum cost of the scheme, then the choice of data, methodology and assumptions used will have a significant impact on whether that figure is breached. We may need to reassess the data, methodology and assumptions used for any further costings, depending on the process to be followed and what the figures will be used for.

Benefit design

44. We have not checked whether the benefit design you have asked us to cost meets any requirements that HM Treasury may apply or any other requirements. For your information, I attach a letter that HMT recently issued relating to the reform of funded public body pension schemes. You would need to discuss with HMT whether they intend that the scheme is in scope for the purpose of this exercise.

Third party reliance and liability

45. This letter has been prepared for the Remuneration Board. I am content for the Remuneration Board to release this letter to third parties, provided that:

    - it is released in full
    - the advice is not quoted selectively or partially, and
    - GAD is identified as the source of the note.

46. Third parties whose interests may differ from those of the Remuneration Board should be encouraged to seek their own actuarial advice where appropriate.

47. Other than the Remuneration Board, no person or third party is entitled to place any reliance on the contents of this note, 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 note. If any contents of this note are to be used to inform any policy decisions GAD should be consulted before those decisions are made.

Yours sincerely

Daniel Selby

Appendix 1 - Data

This appendix contains summary statistics of the data used to produce the results in paragraph 23 of this letter.

Table 6 contains the number of members in the scheme, their pensionable salaries and their average ages weighted by pensionable salaries

Table 6 – Active members immediately following May 2011 Assembly Election

	Number	Total Pensionable Salaries (including officeholder salary) (£ million pa)	Average Age weighted by pensionable salaries At May 2011
Males	37	2.5	51.0
Females	24	1.6	53.3
Total	**61**	**4.1**	**51.9**

Appendix 2 - Assumptions

This appendix contains a summary of the demographic assumptions used to produce the results in paragraph 23 of this letter.

Table 7 details the baseline mortality assumptions. The life expectancies are for members who are aged 65 in 2016 allowing for improvements in the post-retirement life expectancy in line with ONS 2010-based principal population projections. (Improvements in mortality between the base year of the mortality tables, 2002, and 2010 are broadly in line with UK population experience over that period.)

Table 7 – Mortality assumptions and life expectancies

	Mortality Table	Life expectancy when retiring	
		At age 65 in 2016	At age 65 in 2040
Post Retirement Mortality			
Males	S1NMA_L	25.3	27.9
Females	S1NFA_L	26.4	29.1
Surviving Partners' Mortality			
Males	S1NMA_L	25.3	27.9
Females	S1DFA_L	26.8	29.4

Table 8 shows the assumed rates of death in service for males and females at sample ages.

Table 8 – Death in service rates

Age	Death in service rate - male	Death in service rate - female
30	0.0003	0.0002
40	0.0008	0.0005
50	0.0013	0.0009
60	0.0025	0.0022
70	0.0061	0.0061

Table 9 gives the assumptions for rates of withdrawal from active service at each election.

Table 9 – Rates of withdrawal from active service

Age at election date	Proportion of AMs who leave the Assembly at each election assuming a five year term
Under 63	25%
63 to 75	80%
75	100%

The next Assembly Election is assumed to take place on 5 May 2016, with subsequent elections taking place at five yearly intervals.

No allowance is made for members re-joining the scheme after leaving service. The average age of joiners at the May 2016 election is assumed to be 50.4

Table 10 outlines the assumptions for family statistics (proportion partnered and the age difference between member and partner).

Table 10 – Assumed family statistics

Age (exact) at start of year	Proportion married		Age difference between member and partner	
	Male	Female	Male	Female
25	1.00	1.00	3	-3
30	1.00	1.00	3	-3
35	1.00	1.00	3	-3
40	1.00	1.00	3	-3
45	1.00	1.00	3	-3
50	1.00	1.00	3	-3
55	1.00	1.00	3	-3
60	1.00	1.00	3	-3
65	0.99	0.98	3	-3
70	0.97	0.95	3	-3
75	0.95	0.90	3	-3
80	0.91	0.80	3	-3
85	0.84	0.64	3	-3
90	0.73	0.43	3	-3
95	0.56	0.22	3	-3
100	0.33	0.07	3	-3

Annex D: Illustrative pension examples

To illustrate how the proposed scheme may operate in practice some examples are shown below. These are intended to show how the pre and post 2016 service combine to produce a total pension. The calculations shown are purely for illustration as they are based on approximations of future pay, inflation and actuarial assumptions. **These figures should not be relied upon to give any indication of an individual AM's pension as this will also depend on their own personal membership history.**

Pension estimates will continue to be provided to AMs each year, although these will only provide an accurate estimate as the AM approaches their retirement date. Please contact the Pension Administration team if you have any queries on your own pension.

Assumptions used in these illustrations:

- current AM pay, including the proposed increase in 2015, has been used and has then been forecast for the purposes of illustration by assuming uniform pay increases of 1.5% p.a. This should not be taken as providing any indication of the eventual AM determination on pay.
- current officer holder allowances have been used.
- the normal retirement age is assumed to be age 65 for pre-2016 service. The examples do not include anyone with rule of 80 protection, although that may apply in individual cases.
- the normal retirement age for post-2016 service is based on the current state pension age for the member in each example.
- it is assumed that current planned increases in state pension retirement ages remain in place (see UK Government website for more details). it is assumed that members have an accrual rate of 1/40 in the pre-2016 final salary scheme.
- it is assumed that office holders have an accrual rate of 1/40 in the pre-2016 CARE scheme and 1/50 in the new scheme.
- it is assumed that there is a reduction factor of age of 5% p.a. for early release of pension. Actual factors will depend on future actuarial calculations. Similarly, the value of the pension may be increased if is taken after retirement age, although this has not been shown in these examples.
- constant CPI inflation of 2% p.a is assumed.

Example 1 – AM

Background

Age at 1 June 2016	50	
Salary at 1 June 2016	54,391	
Pre-2016 protected service (years)	5	

The AM is below age 60 and therefore does not benefit from transitional protection

What if the AM leaves in May 2021?

Age at date of leaving	55	
Post 2016 service (years)	5	
Estimated salary (assuming 1.5% p.a. pay growth)	58,595	
Pre 2016 pension (linked to 2021 final salary)	7,324	Deferred until age 65
Post 2016 pension (career average)	5,917	Deferred until age 67
Total deferred pension in 2021	13,242	
If then retired at age 65:		
Deferred pre-2016 pension inflated by CPI	8,928	
Deferred post-2016 pension inflated by CPI and reduced for early payment	6,492	
Total annual pension	15,420	

What if the AM leaves in May 2026?

Age at date of leaving	60	
Post 2016 service (years)	10	
Estimated salary (assuming 1.5% p.a. pay growth)	63,123	
Pre 2016 pension (linked to 2026 final salary)	7,890	Deferred until age 65
Post 2016 pension (career average)	12,908	Deferred until age 67
Total deferred pension in 2026	20,799	
If then retired at age 65:		
Deferred pre-2016 pension inflated by CPI	8,712	
Deferred post-2016 pension inflated by CPI and reduced for early payment	12,826	
Total annual pension	21,538	

This illustration must be read in conjunction with the assumptions listed. It is provided purely to illustrate that after 2016 your pension will be composed of preserved and ongoing elements. It should not be used to estimate your individual pension.

Example 2 – Minister

Background	AM salary	Additional Office holder salary as Minister	
Age at 1 June 2016	55		
Salary at 1 June 2016	54,391	41,949	
Pre-2016 protected service (years)	5	5	

The AM is below age 60 and therefore does not benefit from transitional protection

What if the AM leaves in May 2021?			
Age at date of leaving	60		
Post 2016 service (years)	5	5	Continues as Minister
Estimated salary (assuming 1.5% p.a. growth)	58,595	45,191	
Pre 2016 pension (linked to 2021 final salary)	7,324		Deferred until age 65
Pre 2016 office holder pension (CARE accrual of 1/40)		5,705	Deferred until age 65
Post 2016 pension (career average)	5,917	4,564	Deferred until age 67
Total deferred pension in 2021	13,242	10,269	
If then retired at age 65:			
Deferred pre-2016 pension inflated by CPI	8,087	6,299	
Deferred post-2016 pension inflated by CPI and reduced for early payment	5,880	4,535	
Total annual pension	13,967	10,834	

What if the AM leaves in May 2026?			
Age at date of leaving	65		
Post 2016 service (years)	10	10	Continues as Minister
Estimated salary (assuming 1.5% p.a. growth)	63,123	48,684	
Pre 2016 pension (linked to 2026 final salary)	7,890		Deferred until age 65
Pre 2016 office holder pension (CARE accrual of 1/40)		6,299	Deferred until age 65
Post 2016 pension (career average)	12,908	9,955	Deferred until age 67
Total deferred pension in 2026	20,799	16,254	
If then retired at age 65:			
Deferred pre-2016 pension	7,890	6,299	
Deferred post-2016 reduced for early payment	11,617	8,960	
Total annual pension	19,508	15,258	

This illustration must be read in conjunction with the assumptions listed. It is provided purely to illustrate that after 2016 your pension will be composed of preserved and ongoing elements. It should not be used to estimate your individual pension.

Example 3 – AM with transitional protection

Background

Age at 1 June 2016	61
Salary at 1 June 2016	54,391
Pre-2016 protected service (years)	5
The AM is above age 60 and therefore benefits from transitional protection	

What if the AM leaves in May 2021?

Age at date of leaving	66
Post 2016 service (years) - in final salary scheme	5
Estimated salary (assuming 1.5% p.a. pay growth)	58,595
AM benefits from transitional protection and therefore remains in the final salary scheme	
Accrued final salary pension in May 2021	14,649
This pension would then be actuarially increased as it is being paid after age 65	

What if the AM leaves in May 2026?

Age at date of leaving	71
AM moves into career average scheme from 2021 onwards	
Post 2016 service (years) - 5 years final salary and 5 years career average	10
Estimated salary (assuming 1.5% p.a. pay growth)	63,123
Pension relating to pre-2021 service (10 years linked to final salary)	15,781
Pension relating to post-2021 service (career average)	6,469
Total pension in 2026	22,250

This illustration must be read in conjunction with the assumptions listed. It is provided purely to illustrate that after 2016 your pension will be composed of preserved and ongoing elements. It should not be used to estimate your individual pension.

Annex E: Current pension arrangements

Pensions currently make up 19% of Members' total remuneration (basic salary and pension combined). The cost of the current scheme is 33.8% 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 Holders[11] 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 Scheme[12]

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

[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, Committee Chairs, Assembly Commissioners, Business Managers and the Counsel General.*

[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.*

Annex F: 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 (currently 1/40ths, 1/50ths or 1/60ths, at the option of the Member).
- Revaluation rate equal to the increase in the Consumer Prices 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*