



A warm welcome to the latest edition of **eNews from GAD**.

- > In this issue, Bill Rayner talks about how GAD is contributing to a large public sector project in 2013, the actuarial assessment of reformed public service pension schemes.
- > Ian Rogers provides an update on developments following the Macpherson Review of analytical models used in decision making by the UK Government.

I hope you enjoy this issue. As always, previous issues of eNews are available on our website www.gad.gov.uk.

TREVOR LLANWARNE GOVERNMENT ACTUARY

NEWS FROM GAD

Modelling panel organised for the Pensions Regulator

Earlier this year, GAD and the Pensions Policy Institute organised a round-table meeting on behalf of the Pensions Regulator. The topic for discussion was best practices in using theoretical models to understand defined contribution pension schemes. Experiences and views were shared from a wide range of attendees that included academics, advisors, providers and representatives across UK government.

Using models in decision making guide

An updated guide to [Using Models in Decision Making](#) is now available on our [website](#). This document addresses risks which may arise when using models to help make decisions. It aims to provoke thought and discussion about identifying and mitigating such risks while maximising the value gained from modelling within government.

GAD actuaries in Africa

Dermot Grenham and Joanne McDaid, actuaries in our Insurance & Social Security team, recently visited Rwanda as part of the review of the Rwanda social security scheme and to take part in some DfID funded projects. They took with them clothes donated by GAD staff which have been passed to a hospital in Kigali to distribute.

DEVELOPMENTS

Pensions Bill

The [Pensions Bill 2013-14](#) was introduced to Parliament on 9 May 2013, making provision for a variety of reforms to both State pensions and private pensions. The Bill is expected to receive Royal Assent by Spring 2014.

LGPS Call for Evidence

The UK government has published a [Call for Evidence](#) into ways to reduce the costs of the Local Government Pension Scheme (LGPS).

The Pensions Regulator—Annual funding statement

The Pensions Regulator (tPR) has [published](#) its Defined Benefit Annual Funding Statement 2013 and [supporting analysis](#). tPR will consult in the Autumn on revisions to its scheme funding [Code of Practice](#) and its regulation of Defined Benefit pension schemes. Amendments will reflect its new statutory objective (announced in [Budget 2013](#), see also our [Technical Bulletin](#)).

Delay to European Commission proposals on pension fund solvency

The [IORP Directive](#) (2003/41/EC) covers occupational pension funds in the EU. The European Commission has recently [confirmed](#) that legislative proposals for revisions to the Directive, expected in the Autumn, will focus on governance, transparency and reporting requirements and will not yet cover solvency rules for pension funds.

SUPPORTING CLIENTS THROUGH MAJOR PROJECTS: ASSESSING THE COST OF PUBLIC SERVICE PENSION REFORM

Project management and quality assurance expertise are important skills GAD employs in working together with our clients to realise their goals. GAD's actuarial contribution to the work to roll out reformed UK public service pension schemes is a large scale, current example.

What is happening?

Public service pension schemes are being reformed following the recommendations of the Independent Public Service Pensions Commission chaired by Lord Hutton. The changes are being rolled out to most members from April 2015.

The combined efforts of the Scheme Management teams across various departments, HM Treasury officials, and over half of GAD are essential to successful implementation.

The changes affect the pension benefits arising from future employment, but benefits from past employment are unchanged.



Bill Rayner

'Combined efforts ... are essential to successful implementation'



Which schemes are affected?

They include schemes for public sector employees in:

- Armed Forces
- Civil Service
- Fire Brigades
- NHS
- Judiciary
- Local government
- Police
- Research Councils
- Teachers
- UK Atomic Energy Authority

with separate schemes for some groups in Northern Ireland, Scotland and Wales.

What is GAD's role for this initial assessment?

GAD's role is to examine the future cost of the pension benefits; both for current employees, and those who have either left to work elsewhere or already retired. The objective is to calculate two key numbers for each scheme:

- What employers will pay towards the cost of the reformed schemes to begin with; and
- The 'cost cap' or upper limit on what employers pay for each scheme longer term

Additionally, there will be extensive reporting of the intermediate analyses and calculation assumptions, explanation of the final results and, in the future, a review every four years. The detailed requirements will be set out in formal Directions from HM Treasury. The process, and GAD's role, for the Local Government Pension Scheme is a little different. For example, employer contributions are determined locally.

How will this be achieved?

The outline process is as follows:



SUPPORTING CLIENTS THROUGH MAJOR PROJECTS: ASSESSING THE COST OF PUBLIC SERVICE PENSION REFORM (CONTINUED)

GAD's approach

GAD's role in the process of introducing the reformed schemes raises unprecedented challenges. GAD has adopted a carefully planned, co-ordinated approach, in conjunction with clients. This has provided a firm foundation for an effective contribution to the overall roll out process.

'24 schemes, with total membership of around 12 million people.'

| Objectives and project challenges | Progress to date |
|---|---|
| <p><i>Execute in parallel</i></p> <ul style="list-style-type: none"> The analysis has to be completed in parallel for 24 schemes, with total membership of around 12 million people There are overarching HM Treasury directions as well as individual scheme requirements Therefore the approach, assumptions and results for each scheme need to be comparable and consistent. | <p><i>Project planning</i></p> <ul style="list-style-type: none"> Created a central project management team to provide leadership and help identify synergies between teams Rolled out a common planning framework to all teams for effective monitoring and control Maintained ongoing close liaison with clients and other relevant parties. |
| <p><i>Meet tight deadlines</i></p> <ul style="list-style-type: none"> Most schemes need results around the end of 2013 to introduce the new reforms from April 2015 The significant long-term implications for public finances mean that a very high level of detail and accuracy is required Requirements for complex areas such as the cost cap are continuing to evolve. | <p><i>Client focus and resourcing</i></p> <ul style="list-style-type: none"> Focused on the key results our clients need and how to meet them on time Recruited around 10 extra actuaries on short-term contracts to cope with demand Structured approach to ensure that work for other clients is not disadvantaged. |
| <p><i>Stand up to public scrutiny</i></p> <ul style="list-style-type: none"> The significance and scale of the changes for the government, public sector workers and the taxpayers in the UK mean that GAD work is under intense scrutiny by clients, other stakeholders and the general public. | <p><i>Internal and external Quality Assurance</i></p> <ul style="list-style-type: none"> Assembled a group under the GAD technical committee to ensure consistency across all the schemes, spread best practice and support technical rigour and professionalism Appointed Hymans Robertson, pensions consultants, to provide independent quality assurance. (This follows one of the key identified principles in the recent Macpherson review of modelling within UK government.) |
| <p><i>Set the foundations for the future</i></p> <ul style="list-style-type: none"> Integral to the reformed schemes is a review of cost every four years (three years for the local government scheme). | <p><i>Long-term perspective</i></p> <ul style="list-style-type: none"> Structured work this year to provide a base for smooth execution of future reviews. |

To find out more, please contact Bill Rayner or Colin Wilson.

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ANALYSIS FIT FOR KEY DECISIONS—BUILDING ON THE MACPHERSON RECOMMENDATIONS

Mathematical models are key tools for informing decision making in the public sector. The Macpherson [review](#) examined how they are checked as fit for purpose (Quality Assurance).

Following on from Macpherson's recommendations (see [GAD eNews issue 11](#)), in March GAD organised an event bringing together people responsible for modelling across the public sector. This event discussed the findings of the report and what Quality Assurance processes may look like in practice. A key output was the establishment of an expert, cross-departmental working group to continue to share best practice and experience. GAD is working as part of this group to help departments with their plans (Macpherson recommendations 5 & 6) and to share best practice.

As well as the tasks above, GAD has worked with other departments to review their Quality Assurance procedures. If you would like to discuss the [use of models in decision making](#), please contact Ian Rogers or Colin Wilson.

'A working group... to share best practice.'

Cross-departmental working group

We have been helping with several of the deliverables, including:

- drafting an annex on model QA to HM Treasury's document 'Managing Public Money'
- contributing to a new 'rainbow' book (a guide to the purpose and principles of producing quality modelling that supports government decision making); and
- facilitating a session on quality assurance at the recent Heads of Analysis conference.

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