

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

- > In this issue, Colin Wilson talks about why improving modelling processes can help when making critical decisions, and the outcomes of the Macpherson Report.
- > If you or your staff need to get up to speed on pensions, then consider the overview of our new client training on roles and responsibilities for pensions in government.

I hope you enjoy our shorter publication to keep you up to date with developments.

TREVOR LLANWARNE GOVERNMENT ACTUARY

NEWS FROM GAD

New Year honours

The Government Actuary was appointed Companion of the Order of the Bath (CB) in the 2013 New Year's Honours List, for services to the actuarial profession and public finances, and to public service pension reform.

Deputy Chief Actuary appointment

Ian Rogers has joined as Deputy Chief Actuary of the UK Insurance, Risk and Modelling team. Ian joins us from Munich Re where he was Head of Financial Reporting. Before working at Munich Re, Ian held senior roles at Norwich Union/Aviva. Congratulations to Ian and we wish him success in his new role.

Interim Head of HR appointment

Nick Bean has joined as head of Human Resources on a one-year loan from DECC, where he was Head of Recruitment and HR Shared Services. We wish him a rewarding and enjoyable year at GAD.

2012 actuarial valuations

Our public service pensions teams will be completing valuations for more than 25 UK schemes during 2013. GAD has set up a Project Management Group to facilitate clear lines of accountability, effective monitoring and scrutiny of the work. Additionally this will help us communicate regularly and clearly about these valuations with our clients. To date the teams advising both Treasury and public service pension schemes are making good progress.

DEVELOPMENTS

Changes to UK State Pension – The single tier pension

On 14 January 2013 the Department for Work and Pensions published a White Paper on the single-tier pension. This fundamental reform, under which the current two-tier system of a Basic State Pension (BSP) and an earnings-related additional state pension will be replaced with a single flat-rate 'single-tier' pension, will come into force in 2016 or later. At the same time contracting-out will be abolished. Our [Technical Bulletin](#) gives further detail.

Reform of family rights

Two Bills currently before Parliament will reform family rights. [The Children and Families Bill](#) provides, amongst other things, for a new employment right to shared parental leave and statutory shared parental pay for eligible working parents, and an expansion of the right to request flexible working from employees who are parents or carers to all employees. The [Marriage \(Same Sex Couples\) Bill](#) introduces marriage for same sex couples, giving such couples the same rights to survivor's pension benefits as applies to civil partners.

Lifetime allowance and annual allowance

In his Autumn Statement on 5 December 2012, the Chancellor of the Exchequer announced that, from 2014/15, the 'Lifetime Allowance' for pension savings will reduce from £1.5 million to £1.25 million and the 'Annual Allowance' from £50,000 to £40,000. Carry forward of unused relief from tax years prior to 2014/15 will continue to be based on the existing £50,000 limit, and a regime offering fixed protection (Fixed Protection 2014) will be available.

ARE YOU GETTING THE CRITICAL DECISIONS RIGHT? IMPROVING YOUR MODELLING PROCESSES CAN HELP

Hundreds of business critical models are used across government to underpin decisions affecting many of our lives, from predicting the spread of pandemic flu to forecasting population growth. It is important that these models are up to the task. The recent experience on the Intercity West Coast franchise competition underlines the importance of having effective quality assurance for them.



Colin Wilson

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The Macpherson Review

At the end of February, HMT published a final report by Sir Nicholas Macpherson, Permanent Secretary, into the quality assurance (QA) of analytical models that inform government policy. This recognised the importance of modelling in decision-making and sought to understand what is required to ensure that all models are of sufficiently high quality that end users can place their trust in them.

The review found encouraging signs about departments' current QA practices but that there was significant variation in the type and nature of QA undertaken. The report highlights the benefit of a more systematic approach to model QA and makes eight recommendations to extend best practice across the whole of government.

Eight recommendations from the Macpherson Review

1. **appropriate quality assurance**; if time constraints prevent this then this should be explicitly acknowledged and reported
2. **appropriate specialist staff** to develop and use the models as well as undertake QA
3. **a single Senior Responsible Owner** for each model who should confirm that they are content with the QA processes
4. **a governance statement** from the Accounting Officer within each organisation's annual report confirming that an appropriate QA framework is in place
5. **a clear plan for the right environment** within organisations to create the best conditions for QA
6. **a clear plan for the right process** within organisations for how they will ensure they have effective processes to underpin QA
7. **the establishment of a working group** including cross-departmental expertise to continue to share best practice; and
8. **a review in 12 months' time** against the recommendations above. This is being organised by HMT.

What is effective quality assurance?

There are many ways to ensure models and their outputs are error free and fit for purpose, for example developer testing and external peer reviews. Although the most appropriate choice will depend on circumstances, the report gives two key prerequisites for effective QA:

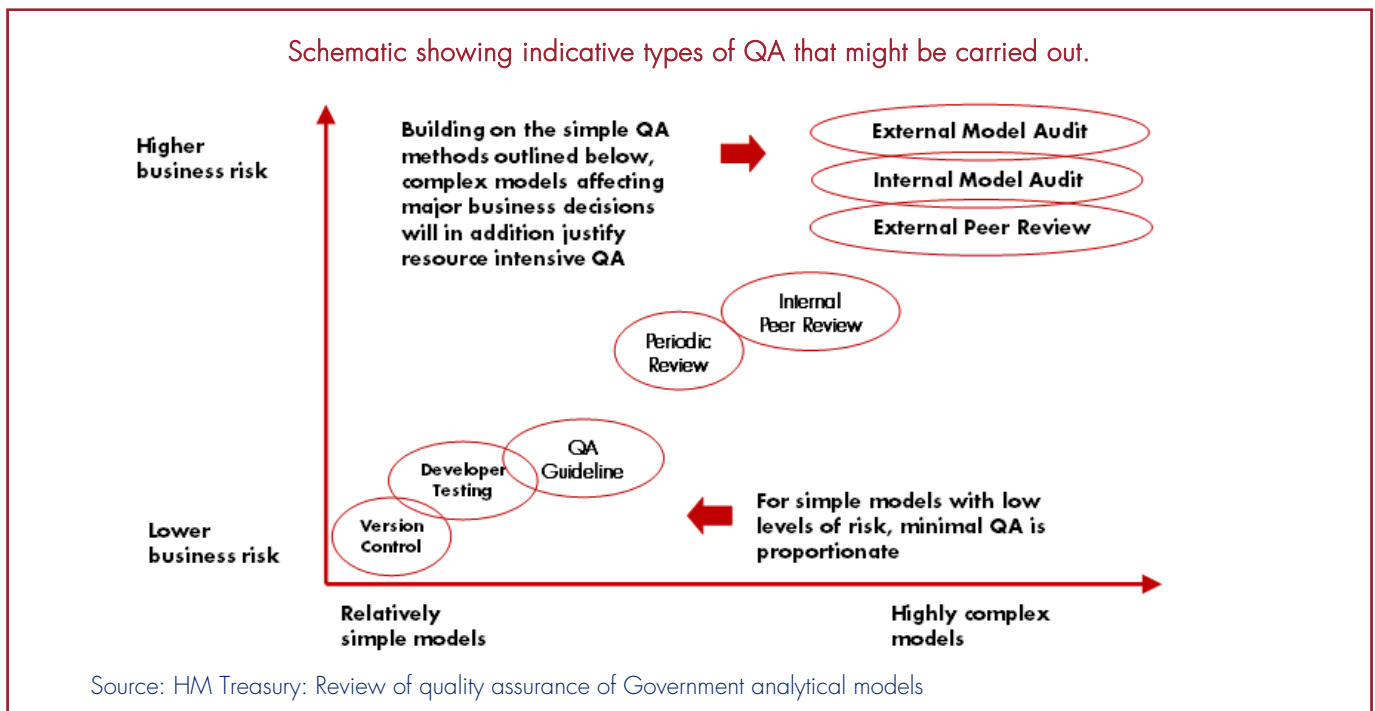
- > creating an appropriate modelling environment, and
- > establishing clear processes for every stage of the model development.

ARE YOU GETTING THE CRITICAL DECISIONS RIGHT? IMPROVING YOUR MODELLING PROCESSES CAN HELP (CONTINUED)

What level of QA is appropriate?

The diagram below illustrates how the level of QA may vary depending on the impact that a model may have on an organisation and the complexity of the model.

'For models used to inform key decisions ... an external review can be worthwhile.'



Even relatively simple models which would not result in an organisation's failure can benefit from some form of quick testing and version control. However, for those models which are used to inform key decisions, much greater levels of QA, including an external review, can be worthwhile.

Unfortunately there is no simple way to identify the optimal level of QA. Instead those responsible for models should consider the range of QA activities that are applicable and make a judgement about what should be carried out after assessing the risks and the consequences of a model error.

Further information

The final report and recommendations can be found on HMT's [website](#). GAD was involved in the production of the report and has worked with other departments to review their QA procedures. If you would like to discuss the QA of models further, please contact Colin Wilson or Ian Rogers.

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DO YOU OR YOUR STAFF NEED HELP GETTING UP TO SPEED ON PENSIONS?

There has been a noticeable trend towards pension scheme stakeholders, across Government and beyond, taking a keener interest in governance issues; with risk management and accountability increasingly important in a time of rapid change in the pensions industry.

GAD has developed training materials to help our public service clients understand their 'Roles and Responsibilities for Pensions within Government'. Presented as a slide pack with supporting notes, GAD advisers can use the materials with you in a variety of settings - from a group presentation to new staff, to one-on-one tutoring with a senior director.

The modules can be used individually or together and the written materials are generic, meaning the training experience can be tailored towards your specific needs and circumstances.

Please speak to your GAD contact to find out more.

There are five stand-alone modules currently available:

1. *How it all works:* offering a basic introduction to pensions and pension schemes
2. *Who is accountable for what?* identifying the main stakeholders and their responsibilities
3. *Help from advisers and suppliers:* who can help with scheme governance and tips for appointing and managing advisers
4. *What your actuary does for you* - the role of the actuary and how they can help
5. *External oversight and troubleshooting* – who oversees and regulates public service pensions and what happens when things go wrong

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