



Government Actuary's Department

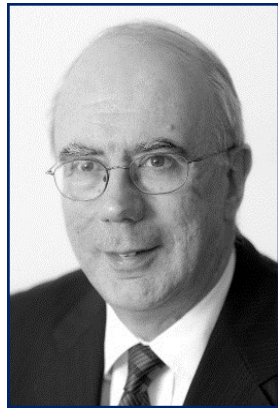
eNews from GAD

ACTUARIAL ANALYSIS
— FOR THE PUBLIC SECTOR
— FROM THE PUBLIC SECTOR

Issue 16 July 2014



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

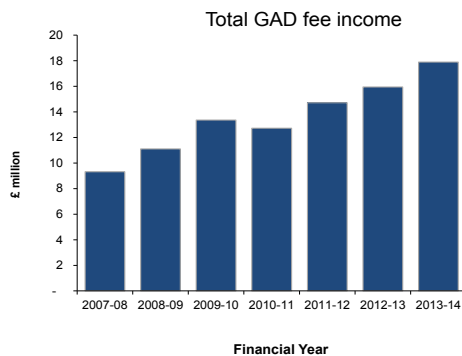
- > I joined GAD, as Government Actuary, on 1 May 2008. This is the last edition of eNews before I hand over to my worthy successor, Martin Clarke, at the end of August. Below are some thoughts on where we are.
- > Also in this issue, Laura Young looks at the importance of actuarial factors for our pensions clients and the necessity of timely review.
- > Finally, Rob Giddings looks at the pension issues that may arise when retendering public sector contracts as a result of new Fair Deal.

I hope you enjoy this issue. As before, previous issues of eNews are available on the publications section of our website www.gov.uk/gad.

GAD over the last six years

When I joined and we started together in 2008, I set three missions to deliver during our journey:

- > A successful GAD
- > A strong reputation for the GA, GAD and actuaries
- > GAD to work for Government (including devolved administrations and NDPBs)* across the whole field of actuarial analysis.



During the last six years, fee income has doubled, we now meet all our financial targets set by Treasury, and we have achieved high employee engagement (67%) in the annual Civil Service surveys. Our client satisfaction reviews have improved each year and stand at a high 8.5 out of 10. I could go on but suffice to say that all key stakeholders seem to recognise our achievements on the first two elements of our mission.

In the last two years, we have correctly, but sadly, pulled out of international insurance regulation. This has enabled us in earnest to build up our capability in insurance, risk and modelling in the UK. Our tremendous progress on this front has been capped in the last month by being asked to take on the actuarial work for the NHS Litigation Authority.

And with increasing attention on assurance over general Departmental and NDPB models (as per the Macpherson Review) as well as our perceived ability to support policy analysis on other

Government long-term costs, we are well positioned to deliver a full range of actuarial analysis across the range of Government, the NDPBs and the devolved administrations.

A key element of our philosophy has been to deliver quality (as perceived by clients) and this is absolutely essential. Without this, we would not have been able to take on Civil Service pensions (returned to GAD in 2012/13 after 10 years in the private sector). Nor could we have made the strong progress we have made, supported by and working with our clients and HM Treasury, in delivering our 2012 pension valuations for public service employers. After all, public service pensions and social security remains and will remain the lion's share of what we do.

Our public service pension work covers people like these



Why does all this matter to you, our clients? My personal position on this, and I keep hearing from you, our clients, to confirm, is that a shared service supplier in Government is very desirable to you and to Government provided it delivers. And if we can keep hitting our targets, and building diversity of work, we can have more control over our destiny to continue to meet your needs for many years into the future. In 2019, GAD will celebrate its centenary. I'm sure we all want this, and also many decades beyond. But in the short-term, I need to sign the latest, and important, quinquennial review on State pensions and the National Insurance Fund projected for many decades ahead. This I plan to do over the summer – expect a report to appear in the next eNews edition.

* Non-Departmental Public Bodies

(continued from page 1)

What the Department needs for the next phase of its journey is a Government Actuary who has real hands-on experience of insurance and risk matters and who can add new impetus into the 'wide field of actuarial analysis' whilst having a strong pensions background to keep the lion's share of our work—pensions—continually delivering and improving.

So I am delighted that Martin Clarke will take over the reins later this summer – he has exactly the experience and expertise to fit.

Let me finish on a personal note. I have thoroughly enjoyed my six (and a bit) years. I've enjoyed working with all the dedicated staff here in GAD and with all our clients. What we've achieved has been achieved together and could not have been done without you. It's all of you who have made my stewardship of the GA role so enjoyable and so fulfilling. I thank you all.

TREVOR LLANWARNE GOVERNMENT ACTUARY



NEWS FROM GAD

New teams

To deliver on expanding insurance risk and modelling work and maximise future growth potential, GAD is splitting its existing Social Security and Insurance team into three new groups: 'Social Security', with Dermot Grenham continuing as Chief Actuary; 'NHS LA team' headed up by Heidi Whitlow to focus principally on work for the NHS Litigation Authority; and 'Insurance, Risk and Modelling' led by Ian Rogers. We wish all concerned the best in their new roles.

GAD attends Heads of Analysis conference

The Heads of Analysis Conference is the annual meeting of leaders of the Government's analytical professions. This year the conference theme was 'A Big Date for Big Data : How can Government make the most of big data, analytics and data science?' The theme was explored through a combination of showcase projects within Government and high profile speakers. GAD attended and participated as part of a showcase on cross-Government predictive analytics.

DEVELOPMENTS

Legislation

The [Pensions Act 2014](#) provides for the singletier state pension from April 2016 and the [Care Act 2014](#) sets out a new legal framework for the provision of adult social care in England. Meanwhile the [Pension Schemes Bill](#) sets a framework under which 'defined ambition' or 'shared risk schemes' (which would pool risk between members) can be established. A further Bill will cover the fundamental changes to the taxation of DC pension schemes announced at Budget 2014 (see GAD's [Technical Bulletin](#)). [Briefing notes](#) give more information on the government's legislative programme.

Pension Protection Fund Levy consultation

The PPF has published a [consultation](#) (closing on 9 July) on its levy plans for the next three years. It proposes, from 2015-16, to use a new PPF-specific insolvency risk model to calculate levy payments, with a separate 'scorecard' (which is used to assess insolvency risk) for Not for Profit entities which include public bodies.

Abolition of Defined Benefit (DB) contracting out

The Government have [consulted](#) on detailed implementation of the April 2016 abolition of DB contracting out. The consultation included draft regulations which [set out changes](#) employers can make to scheme rules to offset the resulting increase in employer National Insurance contributions and [the rules](#) with which schemes which were previously contracted out will need to comply.

Survivor benefits review

The government has [published](#) a review of survivor benefits in occupational pension schemes required under the [Marriage \(Same Sex Couples\) Act 2013](#). The review considers the differences in survivor benefits between different groups and the costs (based on work carried out by GAD) and other effects of eliminating those differences.

DETERMINING FACTORS FOR PENSION SCHEMES

Actuarial factors are a vital tool UK defined benefit pension schemes use in serving their members. Laura Young examines the important role actuaries play in helping schemes maintain these factors and explains some of the issues that need to be addressed.



Laura Young

What are actuarial factors?

Actuarial factors ultimately determine many members' benefits. They are an important part of the scheme.

Members of UK defined benefit pension schemes often have a variety of options over how to receive their benefits. For example, many schemes allow members to retire and receive their pension early but paid at a lower rate. The amount of reduction in pension will be calculated using an actuarial factor.

Examples of other actuarial factors are the rate at which members can swap a portion of their pension for a tax-free lump sum on retirement, the amount of pension credited if a member transfers to another pension scheme and the cost of buying additional pension.

The importance of maintaining factors

Schemes need to review factors regularly to avoid unnecessary risks. Most actuarial factors are based on views about future conditions such as:

- > Investment returns
- > How long members might live, and
- > The structure of the scheme itself.

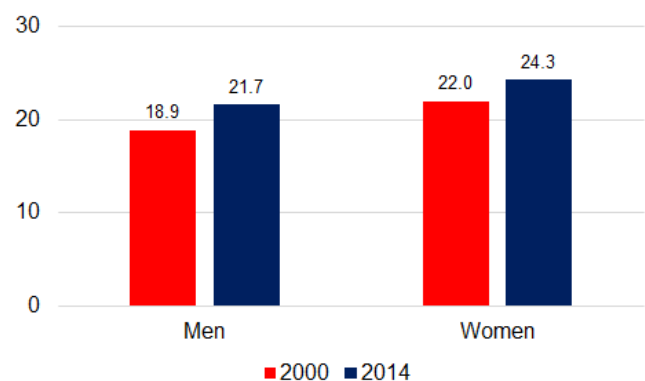
When these items change, the appropriateness of the current factors in force should be considered. As a minimum, actuarial factors should be reviewed following each full actuarial valuation of the scheme, possibly every three or four years.

'Members losing out...could lead to complaints.'

Figure 1 illustrates that, if a factor has been calculated using expected lifetimes in the year 2000 and had not been reviewed subsequently, it could now be underestimating members' expected lifetimes by two to three years. Depending on the relevant factor, this could lead to:

- > Members losing out when exercising options because updated factors were not available. This could lead to complaints against the scheme; or
- > Schemes paying higher benefits than they have made provision for, leading to a possible scheme deficit and hence higher future contributions for employers.

Figure 1. Expectation of life (in years) at age 65, by year of turning 65



Source: www.ons.gov.uk (England & Wales, ONS 2012-based principal population projections, cohort basis)

How actuaries help schemes

With their skills in understanding patterns of member behaviour and financial conditions, actuaries are well placed to advise schemes on what assumptions their factors should be determined on, and to calculate them. As trusted professional advisers, they need to consider a wide range of issues when doing this including whether:

- > The factors ensure members receive equivalent value benefits if they take a particular option, or not
- > It is suitable for factors to be the same for men and women
- > Members are likely to choose benefit options which are suited to their circumstances.

'Actuarial factors ultimately determine many members' benefits.'

GAD provides a wide variety of support on pension issues for its clients including factor reviews. Please get in touch with your usual GAD contact for more information.

RE-TENDERING OUTSOURCED SERVICES: NEW FAIR DEAL

When retendering public contracts for outsourced services, different pension considerations now apply under the UK Government's new Fair Deal policy. Commissioning authorities need to be aware of the changes, which can have financial implications and also affect how the procurement is conducted.

GAD has a specialist 'staff transfers' team which can help commissioning authorities to navigate through the requirements but authorities should also be taking appropriate legal advice.



Rob Giddings

Does this apply to our re-tender?

In broad terms, new Fair Deal applies to staff who are working on the contract that is to be re-tendered and who were originally compulsorily transferred from the public sector under the old Fair Deal policy ('protected staff').

What are some of the main changes?

The focus of new Fair Deal is for 'protected staff' to return to membership of the relevant public service pension scheme, rather than being members of a broadly comparable scheme. The 'protected staff' should also be given the option of a bulk transfer under which they can elect to transfer their accrued pensions from the incumbent's broadly comparable scheme to the public service scheme.

Aren't these just issues for the bidders to resolve?

No, the procurement documentation will need to include details of the requirements and authorities will need to be involved in matters (e.g. the bulk transfer terms) concerning the return of the 'protected staff' to membership of the relevant public service pension scheme. Some matters may need to be handled at an early stage and before the procurement commences.

What might be the key financial implications?

The employer contributions required by the public service pension scheme are likely to be lower than those which would apply in a broadly comparable pension scheme. These lower employer contributions should be reflected in bid documentation.

Depending on the terms offered for a bulk transfer and the level of take up, there could be a shortfall cost if the public service pension scheme requires a higher amount than the bulk transfer value available.

Shouldn't members be offered reduced benefits to avoid a shortfall cost arising?

No, members should be offered day-for-day service credits or equivalent. So if the two schemes provide identical benefits, a member with 10 years' service in the incumbent's scheme would be credited with 10 years' service in the public service pension scheme.

'Some matters may need to be handled at an early stage.'

What happens if the bulk transfer terms are insufficient, leading to a shortfall cost?

Bidders may ask for the shortfall cost to be met by the commissioning authority in their bid documentation. However, at an early stage in the procurement, the commissioning authority should have taken advice on the appropriateness of the bulk transfer terms being offered by the incumbent contractor, taking into account the requirements of Fair Deal and any contractual terms in place with the incumbent for an onward bulk transfer arrangement.

Is there further information available?

Yes, there is information on the GAD website (see [Staff Transfers](#)).

Email: staff.transfers@gad.gov.uk or telephone 020 7211 2676 or 020 7211 2752

GAD CONTACTS

Email: enquiries@gad.gov.uk Telephone: 020 7211 2601

For details of our management team and office address please visit:

<https://www.gov.uk/government/organisations/governmentactuarysdepartment#people>