



Julian Kelly
Director General, Public Spending and Finance

T 0207 211 2620
E martin.clarke@gad.gov.uk

By email only

www.gov.uk/gad

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Dear Julian

Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014

Thank you for your letter of 26 November 2014 explaining some proposed amendments to the Directions and asking for my professional opinion on them.

Comments on specific amendments

I have considered the four groups of proposed amendments.

On groups A and B it is my opinion that the revised Directions should deliver the underlying policy intention described in your letter of 26 November 2014. Further, it is my opinion that these amendments lead to Directions which better deliver the underlying policy intent - because they resolve significant issues that are now known to have arisen owing to some deficiencies in the data used at a previous valuation.

Groups C and D appear to amend legislative references to address issues about the interaction of the various pieces of legislation that provide the framework for valuations. I understand you have taken legal advice on these matters to ensure they do deliver your policy intentions. On my part I have no reason to believe that these amendments do not deliver the policy intentions described.

Comments on the Directions as a whole

It is also my opinion that after these proposed amendments come into force, the Directions will continue to be;

- in the round and to a significant degree, in line with the Treasury's principles for the valuations and the operation of the employer cost cap mechanism
- in the round, technically complete and coherent

Valuation data quality

As illustrated by groups A and B, I note that it is not uncommon for issues, caused by data deficiencies, to become apparent only at a subsequent valuation. There are various reasons why data deficiencies are not always identified at a current valuation, for example;

- Systematic deficiencies in valuation data can be present across other data sets that might be used to verify valuation data (and the challenges of systematic deficiencies can be compounded by the large membership numbers in the public service pension schemes which can mask deficiencies in particular subgroups of the membership).
- The uncertainty inherent in valuation results which assess the value of benefits to be paid decades into the future reduces the tolerance with which any valuation result can be used to “back-check” the data used to produce it.
- While the actuarial advisors to these schemes do carry out checks on valuation data before carrying out valuations, they ultimately rely on the data provided by scheme administrators.

Given these observations, and recognising the problems data deficiencies can cause, I think it is important that initiatives to improve valuation data quality are taken forward for all the public service pension schemes and done so in good time before the next “as at 2016” round of valuations take place. I also note your own concerns about the data problems highlighted by these valuations and that you intend to explore further the issue of improving valuation data quality with schemes in 2015.

It will be equally important for HMT to establish how best to handle data issues when they emerge, especially with regard to the impact on the employer cost cap mechanism (which I note will first be tested at the next round of valuations).

Our actuarial advisers will be able to support such processes and engage with schemes on possible courses of action to improve the standard of valuation data with a view to reducing the likelihood that problems caused by data deficiencies arise in the future.

I am also available at any time to address any questions you may have or to undertake any future analysis.

Third party disclaimer

I understand HM Treasury intend to publish this letter. Third parties cannot place reliance on this letter and, in general, third parties with an interest in actuarial matters should seek their own actuarial advice where appropriate. This letter should be read in conjunction with the previous consultations with the Government Actuary on the Directions.

Yours sincerely



Martin Clarke
Government Actuary