



## Centenary deep dive: GAD's role in advising on public service pension schemes

To celebrate GAD's centenary, eNews is running a series of 'deep dives' into key areas in which our actuaries contribute. A core source of GAD's work is providing advice in relation to public service pensions. With government expenditure on unfunded public pension schemes in excess of £40 billion each year this is both high-profile and of high national importance. This article looks at how the role of GAD pensions actuaries has evolved to remain relevant in the changing pensions landscape.

### Public pensions

The origins of public service pensions can be traced back more than 2,000 years to Ancient Rome, where the first pensions were paid, out of taxation, to military personnel. Closer to home, the first UK public service scheme is thought to have been introduced in the late 17<sup>th</sup> century, to provide benefits to retired Naval officers.

Now, in 2019, more than 5 million UK workers (around 20% of the active workforce) are employed by the public sector, with the majority of these members of the public service pension schemes. Their sheer scale means the schemes have great financial significance and therefore require high quality actuarial advice to ensure they are well managed. The timeline below sets out many of the key dates for public pensions over the last century.

### Rapid growth

GAD's role in the pensions sphere was initially mainly providing actuarial advice to meet requirements set out in legislation. The 1925

Pensions Act which signalled the start of the Government Actuary's official role stipulated the need to oversee regular actuarial valuations of public schemes, alongside other statutory responsibilities.

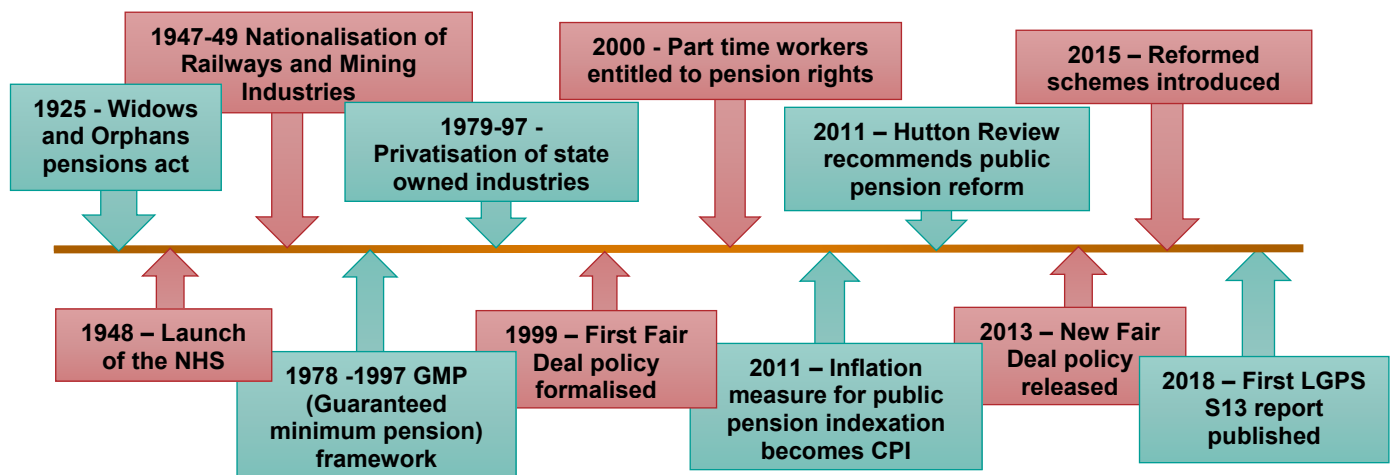
Since then, a rapid growth in the size and fiscal significance of public service pension schemes, alongside increased regulatory and disclosure requirements, has led to a significant expansion of GAD's role.

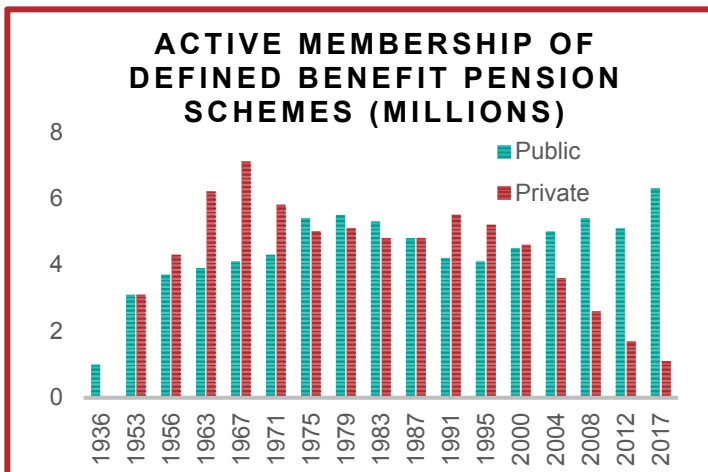
In turn the greater variety in our work has helped accelerate a move away from our highly technical and compliance-based roots, with modern GAD actuaries now requiring a far broader business skillset including advanced consultancy and communication skills.

### The changing pension landscape

Up until the turn of the 21st century active membership of defined benefit (DB) schemes in the private service broadly reflected that in the public service. However, this landscape has been changing (see graph overleaf).

## TIMELINE OF KEY EVENTS FOR PUBLIC SERVICE PENSIONS





Source: Office for National Statistics

In June 2010, the government established an Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, to consider “*the long-term affordability of public sector pensions, while protecting accrued rights.*” This led to the [Hutton Report](#), published in 2011, which recommended that public sector employees retained the right to accrue defined benefit pensions, albeit with scheme revisions designed to improve affordability and better manage the financial risks to the generations of taxpayer to come.

## Future proofing public pensions

GAD played a key role in advising on the implementation of the Hutton reforms through the setting up of new “2015 schemes”. This involved:

- transitioning away from final salary benefits to alternative career average arrangements
- aligning the age at which benefits are payable to match state pension age

The government also introduced a new framework to monitor the costs of the new benefits on an ongoing basis. Built in mechanisms allow changes to future benefits to be made if necessary to ensure the overall taxpayer cost remains affordable.

## Wider contribution

In addition to supporting the management and reform of public service schemes, GAD’s pension actuaries play a key role assisting policy makers across a diverse range of pensions’ challenges.

Some examples of wider areas our actuaries have contributed to are:

- **Protecting pension rights for outsourced employees** – GAD have been advising government departments on the requirements of [Fair Deal](#) since the late 1990s, ensuring that the pension rights for public sector employees involved in a compulsory transfer of staff are protected
- **Advice on pension privatisation** - GAD provided extensive advice to Government on the pensions solution which formed part of the privatisation of Royal Mail. This included advice in relation to the benefits to be provided by a new statutory pension scheme, as well as administration requirements, financing, and the transfer of assets to Government
- **Aiding transparency** – Since 2013 GAD have had a key role [analysing funding valuations and employer contribution rates](#) for each of the 91 separate Local Government Pension Scheme (LGPS) funds in England and Wales. Our resulting Section 13 report allows simple comparisons between funds to be made. See our previous eNews article for more information



## Future of public service pensions

Public service pensions will no doubt remain a substantial part of public expenditure and an important benefit for millions of public servants for many years to come. Through bolstering our existing offerings to incorporate latest data visualisation and interactive decision-making techniques, and reacting swiftly to new developments such as the recent transitional protection judgment, GAD will continue to provide high quality advice which aids government in meeting the challenges ahead.