Professional Pensions

KGC Actuarial Fee Survey 2010 – Headline Results

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Contents

1. Introduction

KGC asked 18 actuarial firms to participate in its first Actuarial Survey, of the 18 providers 13 took the opportunity to provide some insight into their costs for actuarial services. Each firm was asked to complete a populated spreadsheet stating the fee charge for each sub-service and whether specified tasks are included within this fee. Providers were asked to cost for five different scheme sizes – 1,000, 2,000, 4,000, 5,000 and 10,000 both open and closed arrangements.

KGC divided what it feels are the main components[1] within an actuarial service into six sub services these include:

- Annual Actuarial
- Triennial Actuarial Tasks
- Ad hoc Actuarial
- Periodic Actuarial
- Triennial Valuation
- Corporate

KGC also gave all providers the opportunity to state whether they include any other tasks within any of the sub services in the fee quoted, that KGC would normally view as non-core tasks resulting in an extra fee.

1.1. Scenario Assumption

Each contact at the participating firm was asked to cost specific scenarios across a range of scheme sizes. This ensured the cost was close as possible to a 'real life' situation and enables like for like comparison.

The scenario was as follows:

- Membership broken down - 25% active, 50% deferred and 25% pensioners.
- One category of members – 1/60 accrual, contracted-out on reference scheme test, LPI pension increases, pensionable salary set at renewal on 01/04/2010 and is basic salary exclusive of fluctuating emoluments.
- Trustee meetings to take place at the client's premises.
- Open – open to new members.
- Closed – closed to future accrual.

2. Fee Analysis Explanation

KGC used the results to create three types of graphs illustrating 'open' scheme costs. The results did not show enough differentiation between actuarial costs for open and closed schemes. All providers' fees are compared against the mean fee for 2,000, 5,000 and 10,000 life schemes. All fees are rounded to the nearest hundred for clarity. Firms which costed larger scheme sizes, but admitted they had no current clients in this range were excluded from the results to avoid unnatural skewing.

[1] "based on experience derived from procurement and benchmarking exercises"

3. Graphs

The first set of graphs shows the Annual Actuarial Fee and includes:

- Annual Actuarial – e.g. certification
- Ad hoc Actuarial – e.g. updates
- Periodic Actuarial - e.g. attendance at trustee meetings

The second set of graphs shows the Triennial Valuation Fee and includes:

- Triennial Actuarial tasks e.g. factor review,
- Full Valuation cost

The last set of graphs illustrates a Total Year 1 Cost and includes:

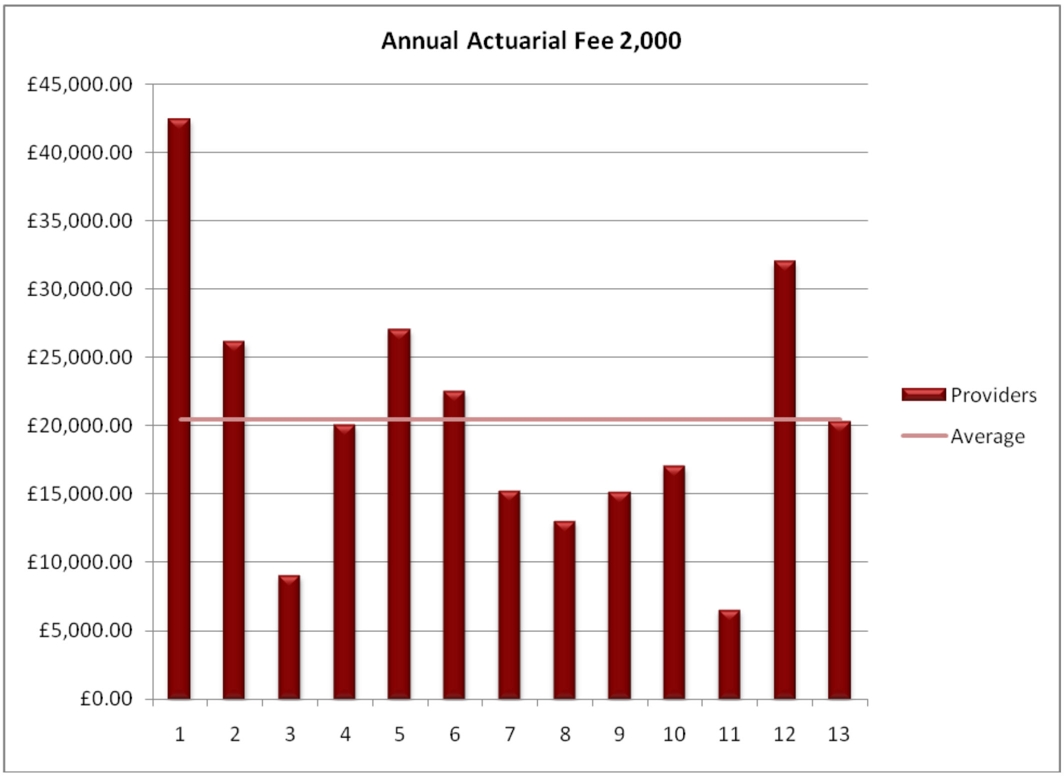
- Annual Actuarial
- Ad hoc Actuarial
- Periodic Actuarial
- Triennial Actuarial tasks – as a one off cost
- Corporate Actuarial
- Valuation cost divided by three

3.1. Graph Set 1

Graph 1a

Annual Actuarial Fee - 2,000 life scheme.

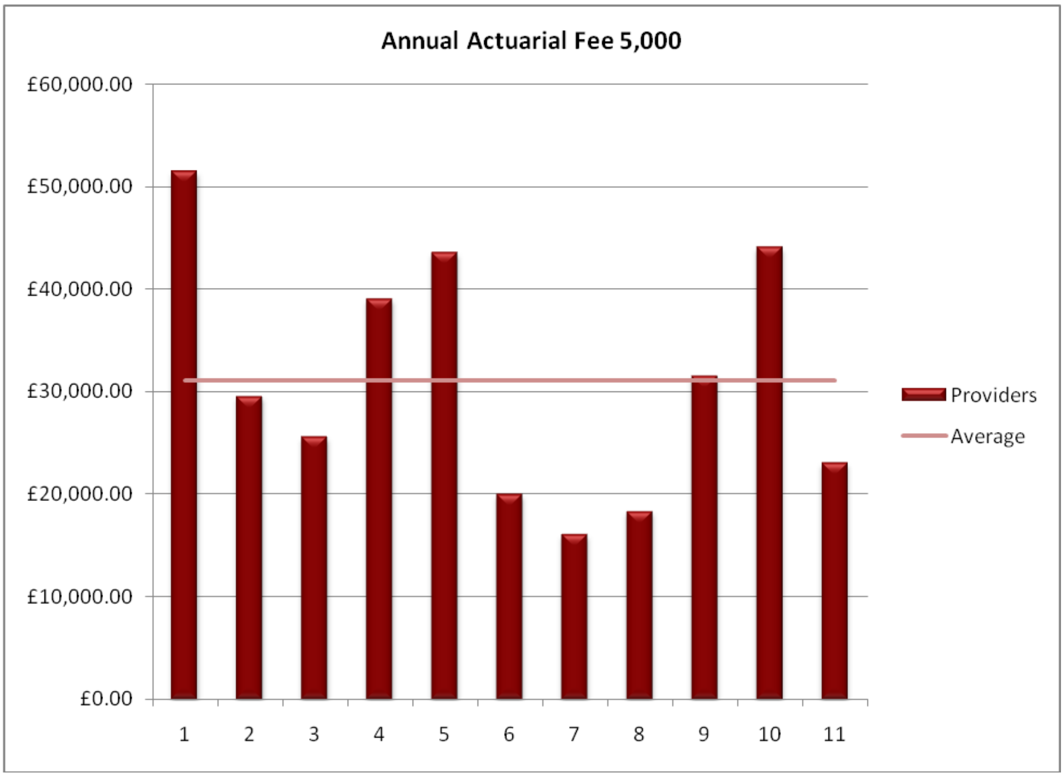
There is a £35,900 range between the highest and lowest cost firm. Given these are core tasks all DB schemes need from a compliance perspective and (generally) can be readily proouced, this differential it is surprising. The highest provider is almost twice as expensive as the average and the lowest provider is £14,000 cheaper than the average fee. The majority are well below the average, which is skewed by the some very high costs.



Graph 1b

Annual Actuarial Fee - 5,000 life scheme.

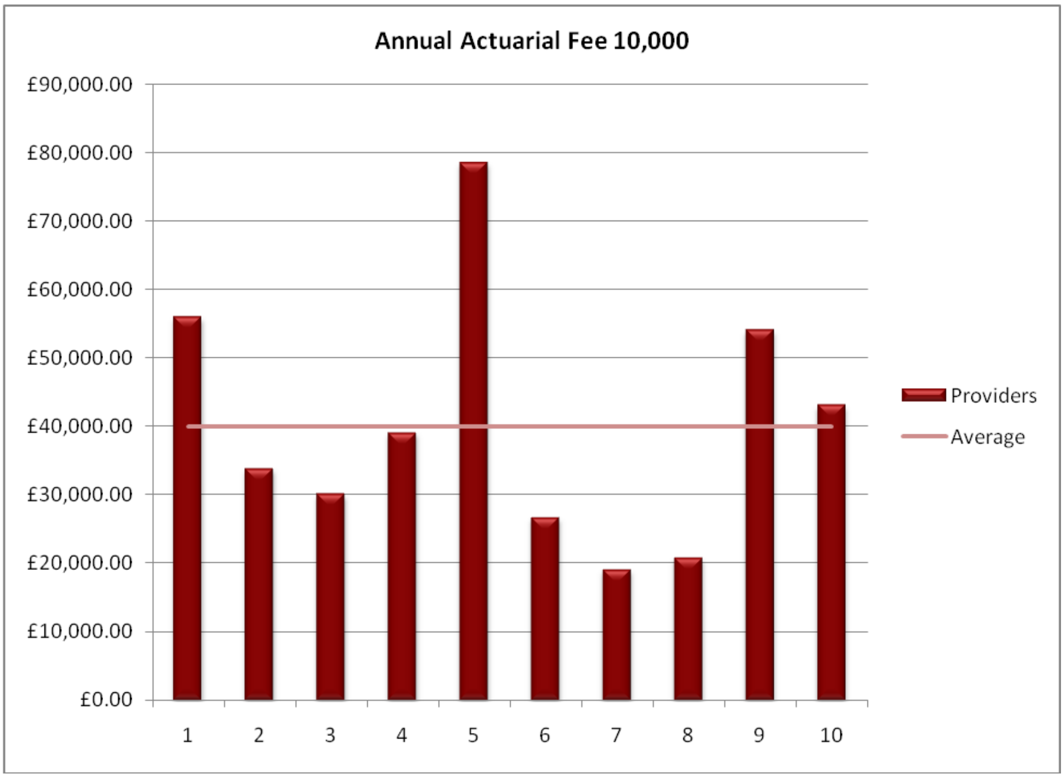
Again, the majority of providers' fees are less than the average, which is skewed by some high charging firms. The average fee increased by £10,600 from a 2,000 life scheme to £31,000. The highest provider is £20,400 more expensive than the average whilst the lowest provider is £15,100 cheaper than the average. Again there is a significant range between the highest and lowest provider at £35,400.



Graph 1c

Annual Actuarial Fee - 10,000 life scheme.

There is a settling between the cost effectiveness of providers at 10,000 lives. The most expensive provider is almost double the average cost, but the lowest provider is almost half. The range between highest and lowest providers is a massive £59,500 – almost £20,000 more than the average itself.

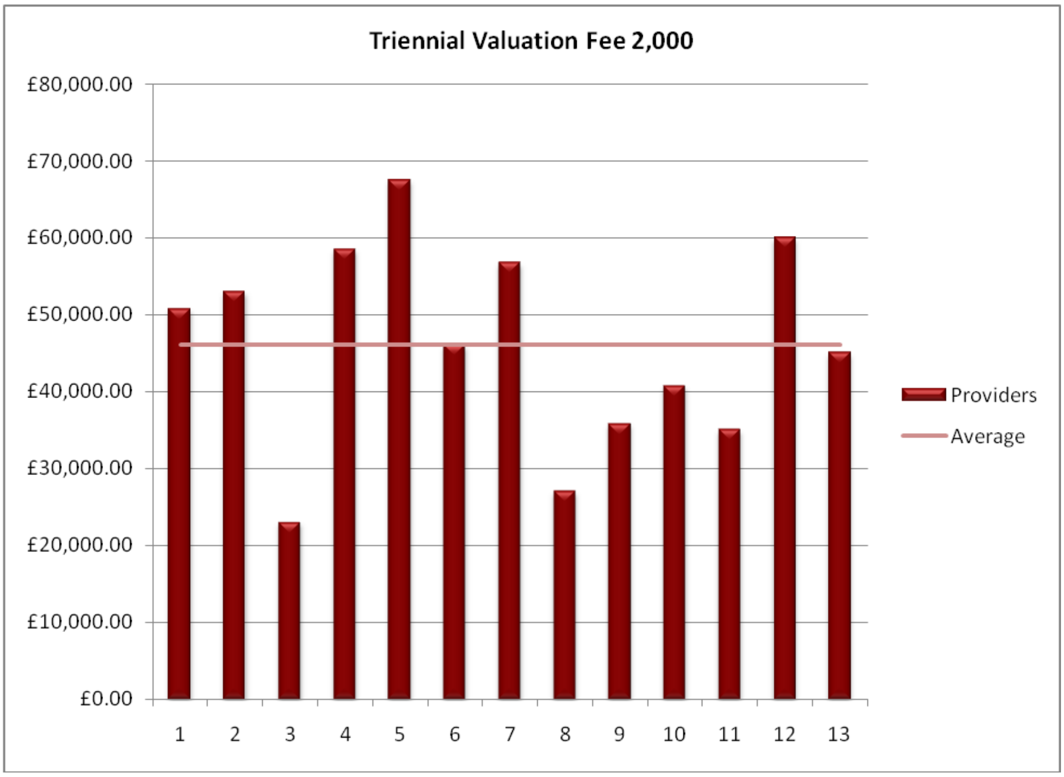


3.2. Graph Set 2

Graph 2a

Triennial Valuation - 2,000 life scheme.

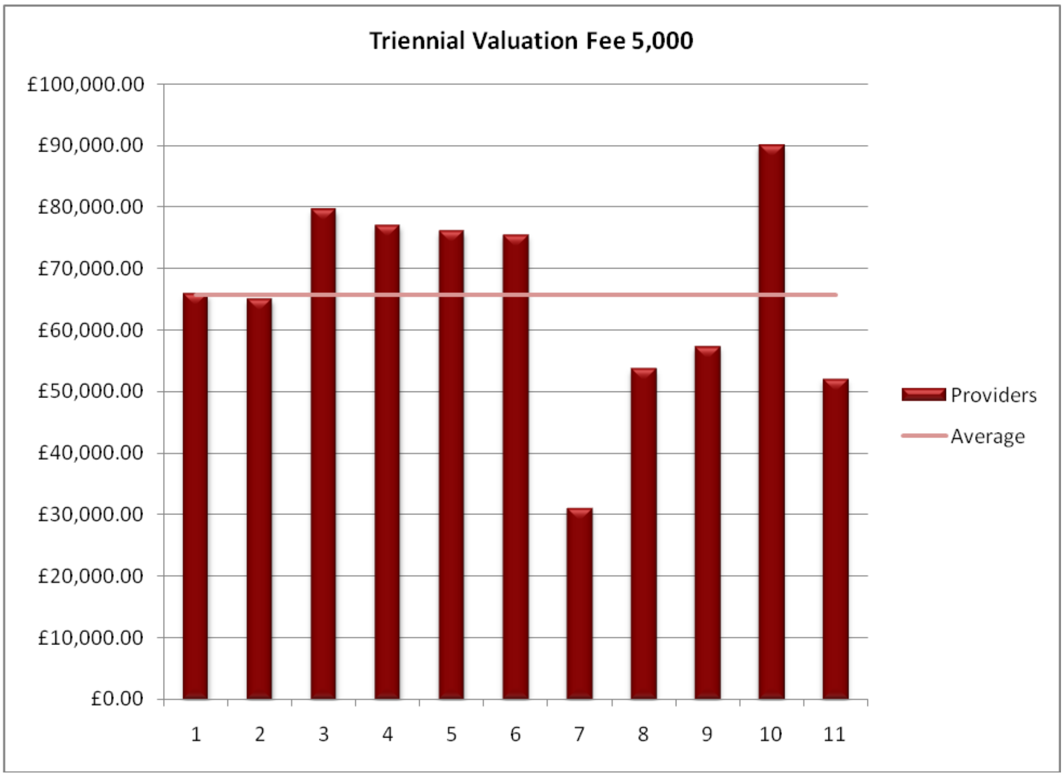
All firms were asked to price a valuation up to delivery of draft results, so no account would be taken of post delivery negotiations. Despite this, the cost of providing a basic valuation service fluctuated wildly - which is hidden by the resultant average cost. The range between the most expensive and cheapest firm was £44,500.



Graph 2b

Triennial Valuation - 5,000 life scheme.

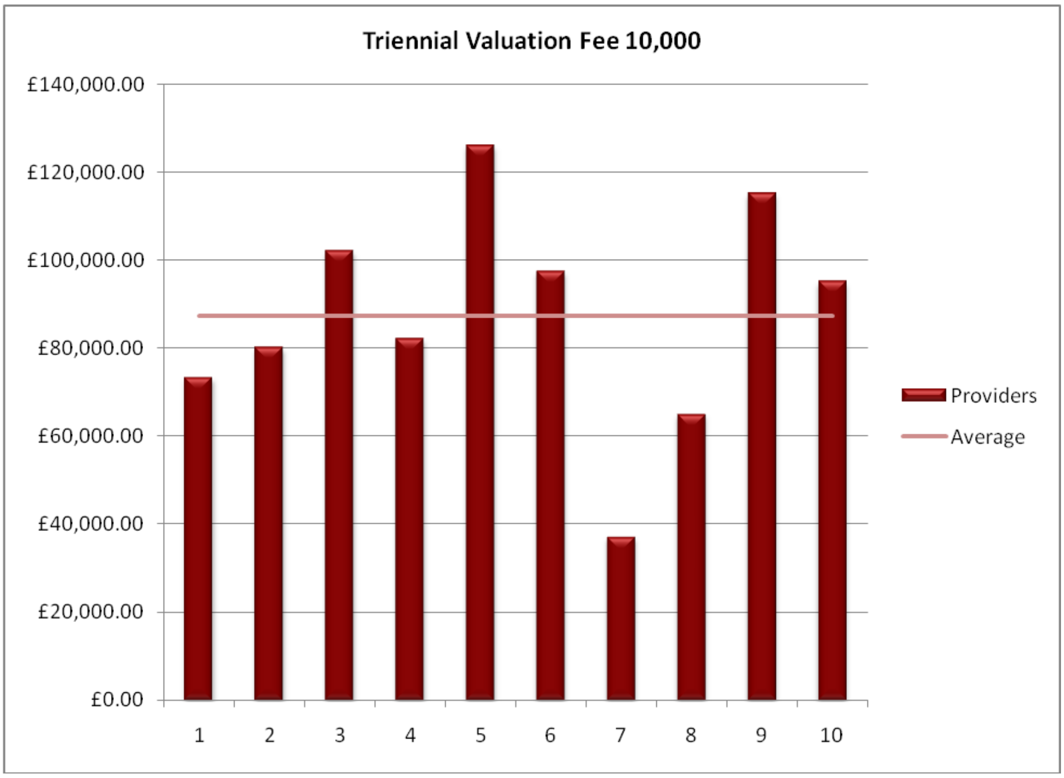
Firms' full valuation costs begin to group at 5,000 lives, but there are still some who say they are able to deliver the basic service for relatively low fees. The range between the highest and lowest charging firms therefore stays high at £59,000 – which is nearly as high or higher than the actual fee of nearly half of the sample.



Graph 2c

Triennial Valuation - 10,000 life scheme.

The range between the highest and lowest cost provider is now significant at £89,000.

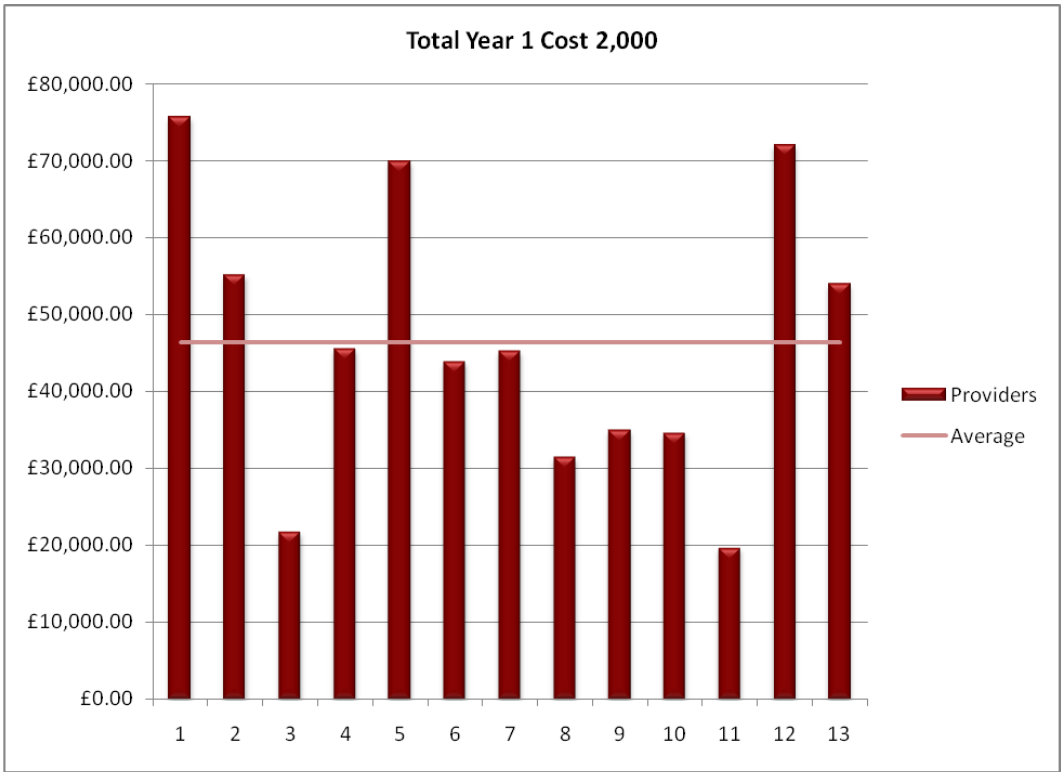


3.3. Graph Set 3

Graph 3a

Total Year 1 Cost - 2,000 life scheme.

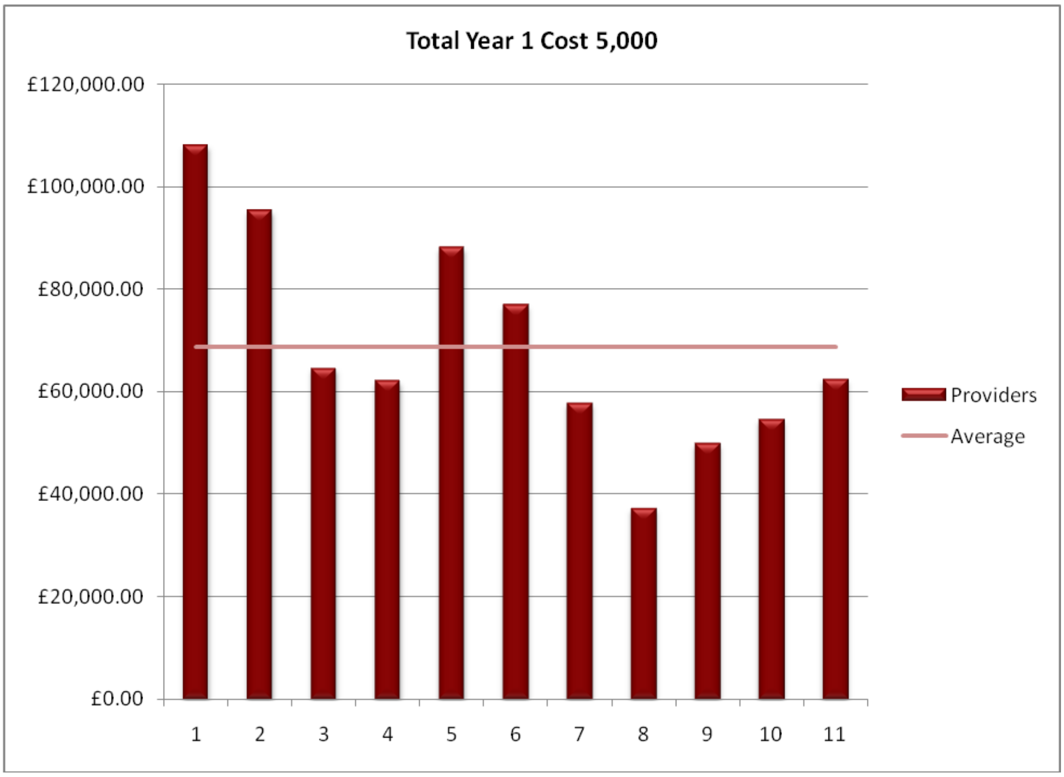
Grouping all of the basic actuarial services together to give a smoothed annual cost produces some surprising results. The most expensive firm is nearly four times more expensive than the cheapest. At this smaller end of the scale trustees should ensure they are getting value add for a basic service that could end up costing them £56,000 more than their peers.



Graph 3b

Total Year 1 Cost - 5,000 life scheme.

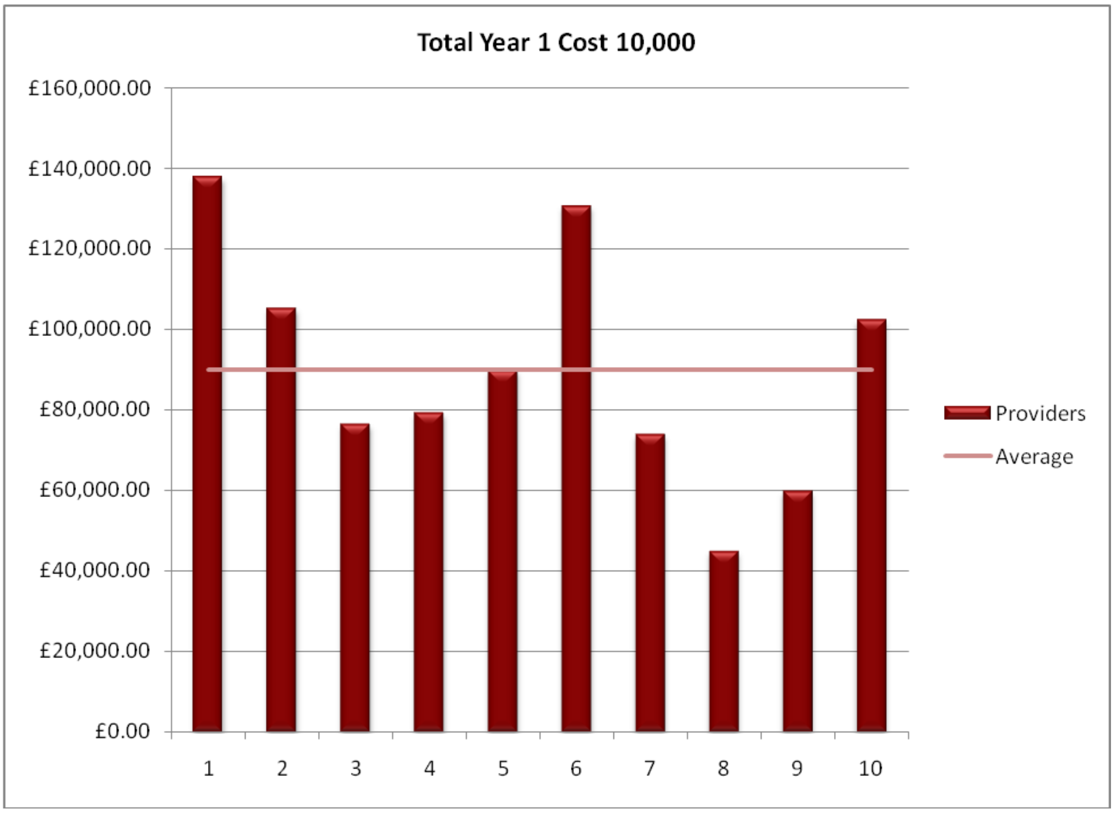
At £70,800, the differential between highest and lowest charging firms shows no sign of reducing at 5,000 lives.



Graph 3c

Total Year 1 Cost - 10,000 life scheme.

The basic annual actuarial cost of a 10,000 life scheme is £43,400 more than that of a 2,000 life scheme. At £93,000, the range between highest and lowest charging firms is in itself more expensive than the actual costs of six of the participating firms.



4. Services Provided

The chart below sets out what services KGC considers being core and each provider was asked to state whether it provides the services or not.

Core Services	Y/N	Notes
Annual Actuarial		
PPF Levy Guidance (Level of levy to be expected in coming year).		
Production of annual actuarial report as required by legislation.		
Production of annual Summary Funding Statement (SFS) - included approximate annual updates of funding position and provision of Annual Report.		
Provide appropriate actuarial certification		
General advice on PPF levy, contingent assets, D & B monitoring and PPF levy advice.		
Annual submission of deficit reduction certificates to PPF.		
Provide input to required mandatory documents certification e.g. Scheme Return, Annual Accounts etc.		
Triennial Actuarial Tasks		
Provision of a standard basis for calculating transfer values(TVs), production of transfer factors and pro forma to determine benefits to be granted in respect of TVs (i.e. not modeller).		
Provision of a standard set of early retirement pensions and those used to convert pensions into lump sums.		
Ad Hoc Actuarial		
Provide legislative updates (info only not in depth advice).		
Provide papers for Trustee's on standard actuarial topics.		
Periodic		
Attendance at Trustee meetings in non-valuation year.		
Valuation		
Specification of data requirements and liaison with Scheme administrator or other parties over provision of data by electronic means in agreed format.		
Validation checks on membership data to ensure it is adequate for valuation.		
Pre-valuation meeting to deliver advice relating to assumptions		
Provision of scheme specific assumption modeller. ***If yes, is there a set up fee and how much?***		
Meeting to deliver draft valuation report.		
Advice in relation to term of Recovery Plan.		
Preparation of Recovery Plan and submission to tPR or analysis of surplus to identify factors which have acted in favour of and against the financial strength of the scheme.		
Preparation of Schedule of Contributions and certificate.		
Preparation of other statutory certificates		
Corporate		
Advice on pension and other benefit accounting costs for purposes of FRS17, IAS19 and FAS87 accounting.		

The chart below sets out tasks that are normally considered to be non-core and asked each provider if it provided any of the tasks in its core offering.

The following are usually considered as non-core services; do you offer any as part of your core services?	**Y/N**
General	
Ad hoc valuations arising as a result of changes in scheme structure, membership, membership profile or business activities.	
Advice relating to benefit changes, provision of non-guaranteed pension increases, individual member benefit augmentations incl. reporting on financial implications, additional contributions required, accounting treatment and/or solvency issues.	
Advice relating to material changes in staffing levels and reporting on financial implications for members and benefit arrangements.	
Calculations and advice arising in connection with changes in the contracting out status of the scheme or terms of contracting out.	
Provision of certificates other than those provided under the services e.g. Section 67 Certificates. ***Specify.***	
Actuarial input/comment in relation to Statement of Investment Principles (SIP).	
Discussions with tPR in relation to funding plans, incl. particular Recovery Plans, Statement of Funding Principles (SFS) and calculation of Technical Provisions.	
Reporting to tPR of any legislative breaches of which Scheme Actuary is made aware and if appropriate any late payments or underpayments of contributions notified by administrators.	
Detailed advice in relation to the impact on funding and solvency levels of transfer values (TVs) and the provision of reduced TVs where schemes are not fully funded.	
Report to the Trustees on funding adequacy and whether it meets the legal minimum - monthly/quarterly/annual/other ***Specify.***	
Detailed advice on alternative bases for the calculation of actuarial factors.	
Advising on terms of any bulk transfers to be paid/received.	

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