



KGC Actuarial Fee Survey 2012 – Headline Results

The Full Report

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1.0. Introduction

Earlier in 2012 20 firms accepted our invitation to participate in the third **KGC Actuarial Fee Survey**. We were pleased to note this represented an increase from 2011, with a further seven firms participating since the inception of this fee survey. The survey data was collected via Survey Monkey™ where each firm was asked to provide a fee for a set of core services (see appendix). Firms were given the opportunity to identify additional added value services which they normally include as core. To reflect the market, we asked the firms to cost for six different scheme sizes – 200, 500, 1,000, 2,000, 5,000 and 10,000 lives.

The main components¹ within an actuarial service are divided into six services these include:

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

1.1. Scenario Assumption

Each contact at the participating firm was asked to cost specific scenarios across the range of scheme sizes. No account was made for the asset size of each scheme.

The scenarios were as follows:

- All scenario schemes are open to future accrual but closed to new members
- Membership broken down – 25% active, 50% deferred and 25% pensioners.
- There is one category of members – 1/60 accrual, contracted-out on reference scheme test, LPI pension increases, pensionable salary set at renewal on 01/04 and is basic salary exclusive of fluctuating emoluments.
- Meetings will take place at the client's premises.

2.0. Fee Analysis Explanation

We used the results to create three types of graphs illustrating scheme costs. The fees are compared against the mean fee for 200, 500, 1,000, 2,000, 5,000 and 10,000 life schemes. All fees are rounded to the nearest hundred for clarity.

Firms were only requested to complete responses where they actually deliver services for a particular scheme size. Therefore, sections can include results from a smaller number of firms than the whole survey sample.

¹ Based on experience derived from KGC procurement and benchmarking exercises

3.0. 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 year one cost² and includes:

- annual actuarial
- ad hoc actuarial
- periodic actuarial
- triennial actuarial tasks – as a one off cost
- corporate actuarial
- valuation cost divided by three

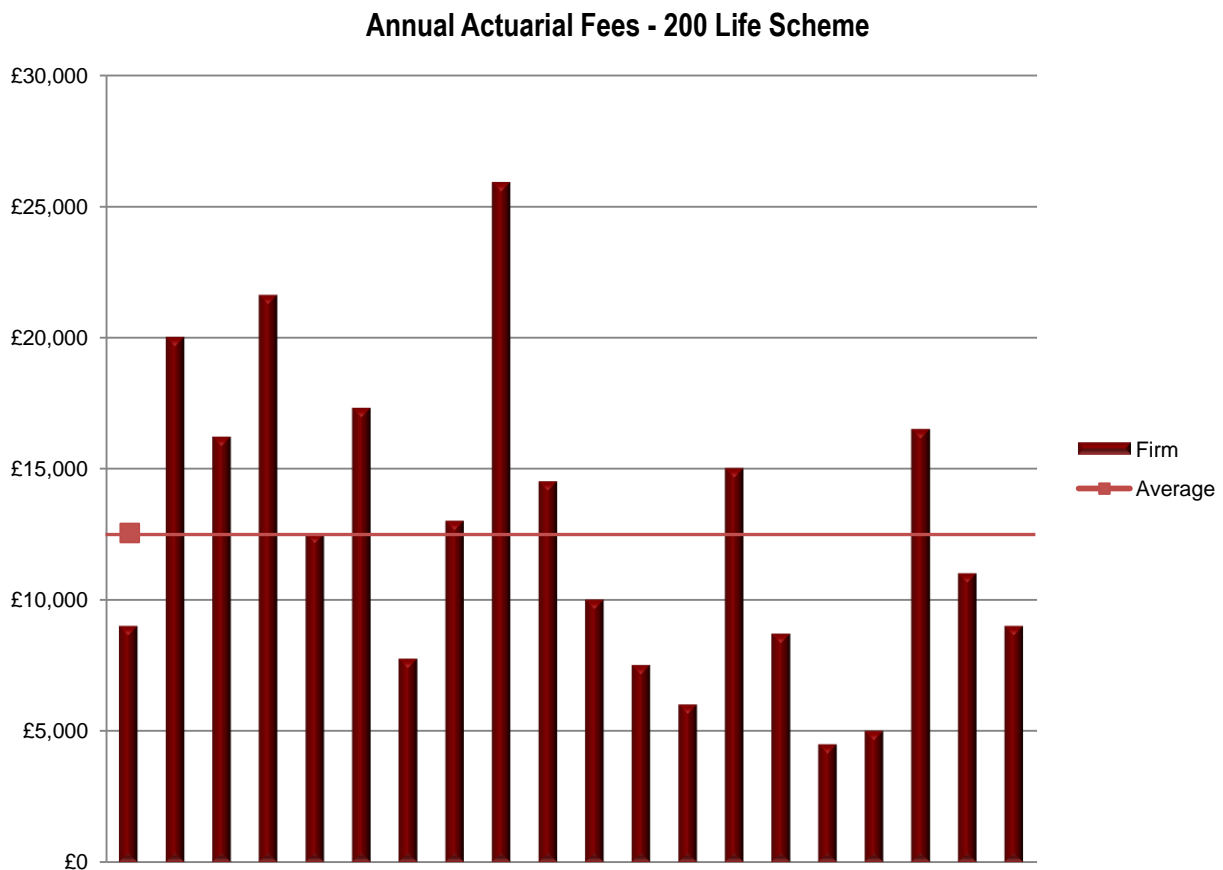
² We acknowledge schemes are unlikely to incur a true 'year one cost' because tasks within annual/triennial actuarial may overlap, however it enables better comparison.

3.1. Graph Set 1

Graph 1a

Annual Actuarial Fee – 200 Life Scheme

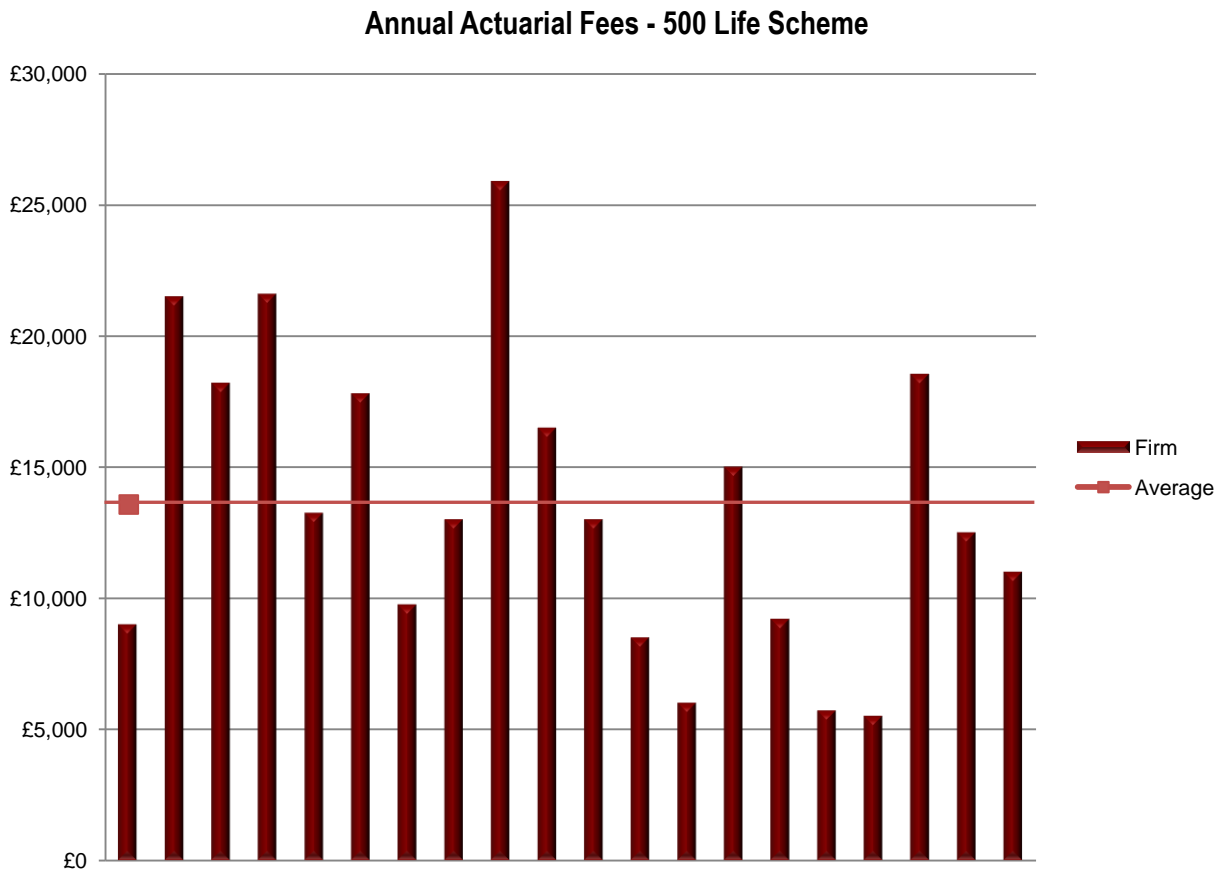
There is a difference of £21,400 between the lowest and the highest fee. Nine firms sit above the average fee and 11 below. The most expensive firm charges nearly six times as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is more than twice the average. The lowest fee 64% less.



Graph 1b

Annual Actuarial Fee – 500 Life Scheme

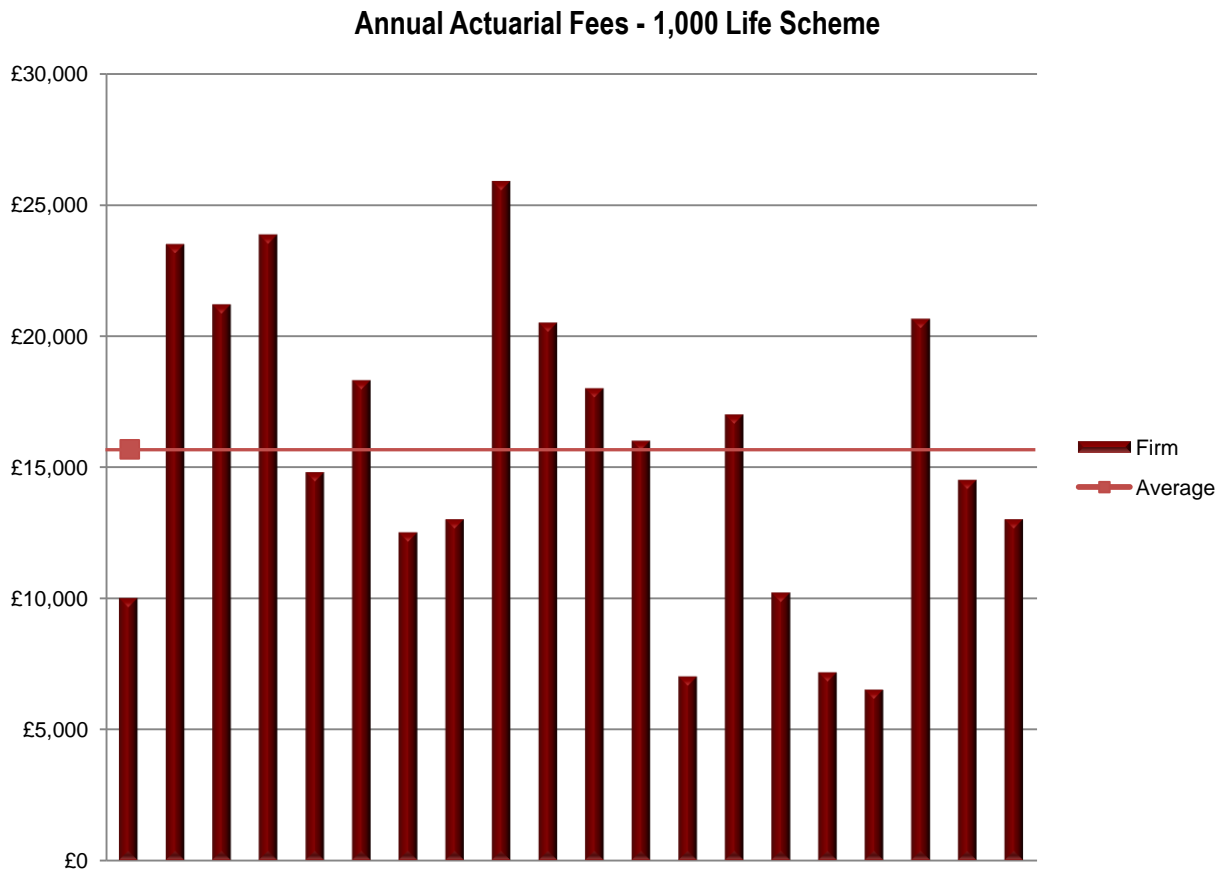
The difference between the highest and lowest fee has decreased by £1,000 to £20,400 when compared to a 200 life scheme. Eight firms are now more expensive than the average fee and 12 are less than the average fee. The most expensive firm charges nearly five times as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 90% more and the lowest fee is 60% less.



Graph 1c

Annual Actuarial Fee – 1,000 Life Scheme

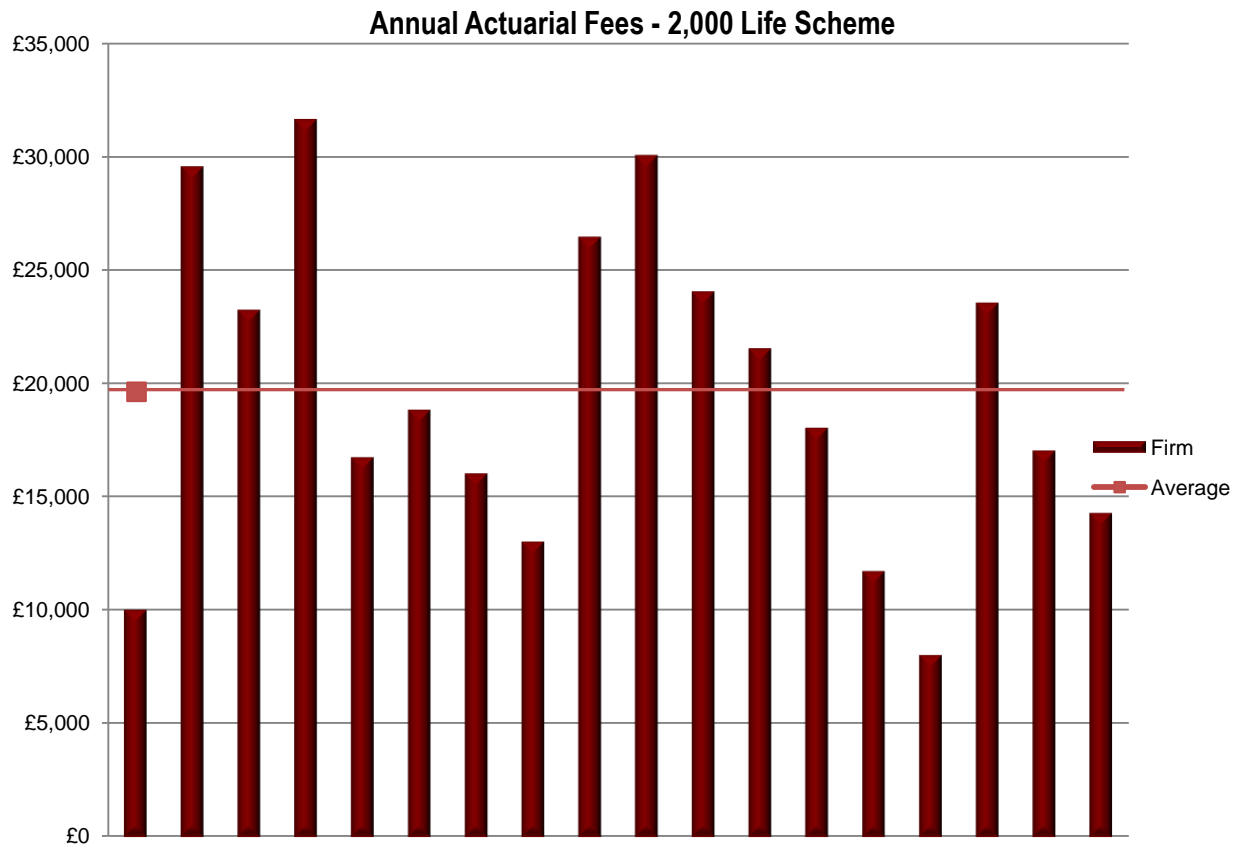
The cost difference between the highest and lowest fees has reduced by a further £1,000 in comparison to a 500 life scheme. 10 firms each sit either side of the average fee. The most expensive firm charges nearly four times as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 65% more and the lowest fee 59% less.



Graph 1d

Annual Actuarial Fee – 2,000 Life Scheme

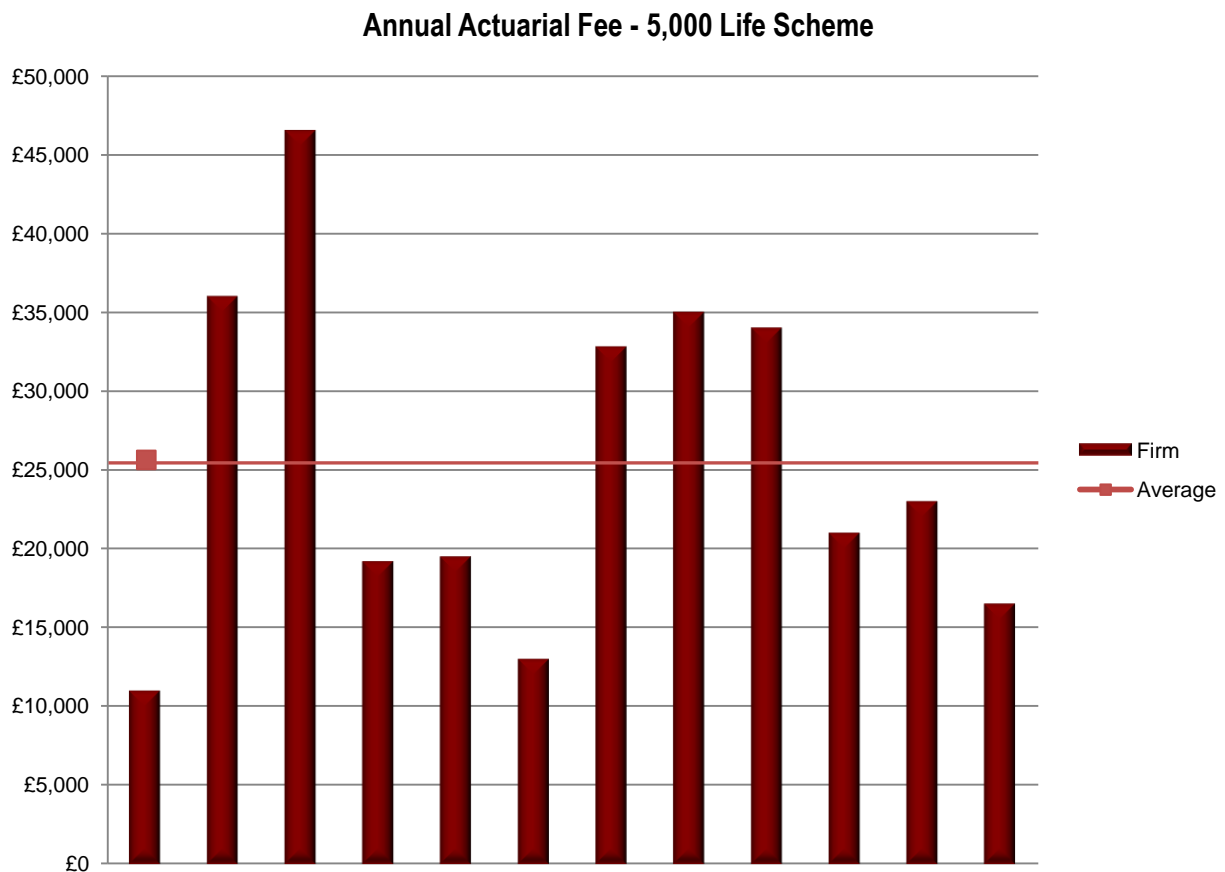
The difference between the highest and lowest fee has increased to £23,600. This is a 12% increase on 2011 and a 34% decrease on 2010. Eight of the 18 firms are more expensive than the average fee. The most expensive firm charges nearly four times as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 61% more and the lowest fee is 59% less.



Graph 1e

Annual Actuarial Fee – 5,000 Life Scheme

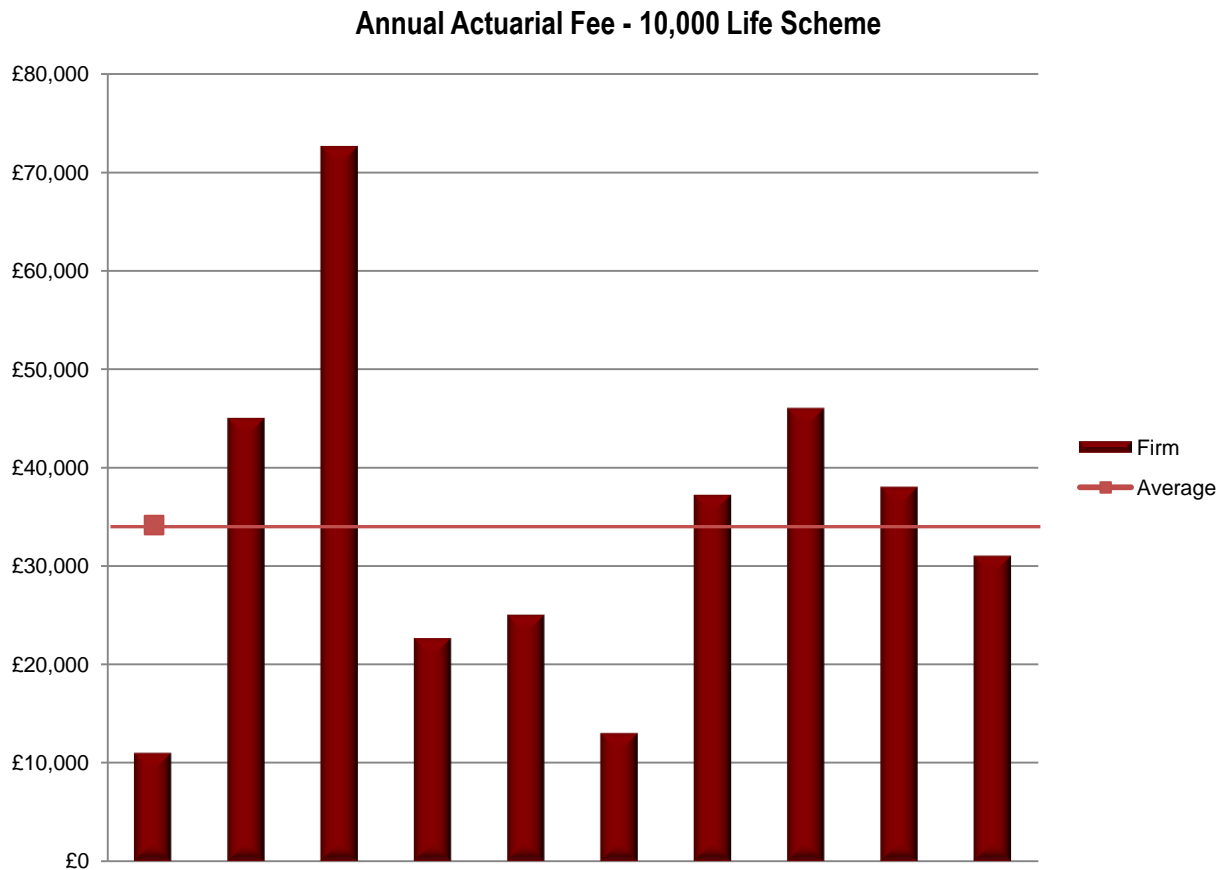
The majority of firms charge less than the average fee with only five firms charging more. The cost difference between the highest and lowest fees has increased by £11,900 when compared to a 2,000 life scheme to £35,500. This cost difference is 32% more than 2011 but only 0.3% more than 2010. The most expensive firm charges more than four times as much as the lowest firm. The highest fee is 82% more than the average and the lowest fee is 57% less than the average.



Graph 1f

Annual Actuarial Fee – 10,000 Life Scheme

The range in cost between the highest and lowest has now significantly increased to £61,600, this is an 18% increase on 2011 and 4% increase on 2010. Five firms sit below the average fee and five firms sit above the average fee. The most expensive fee is more than six and half times higher than the lowest fee. When comparing the highest and lowest fees to the average cost, the highest fee is more than twice as expensive. The lowest fee is 68% less.



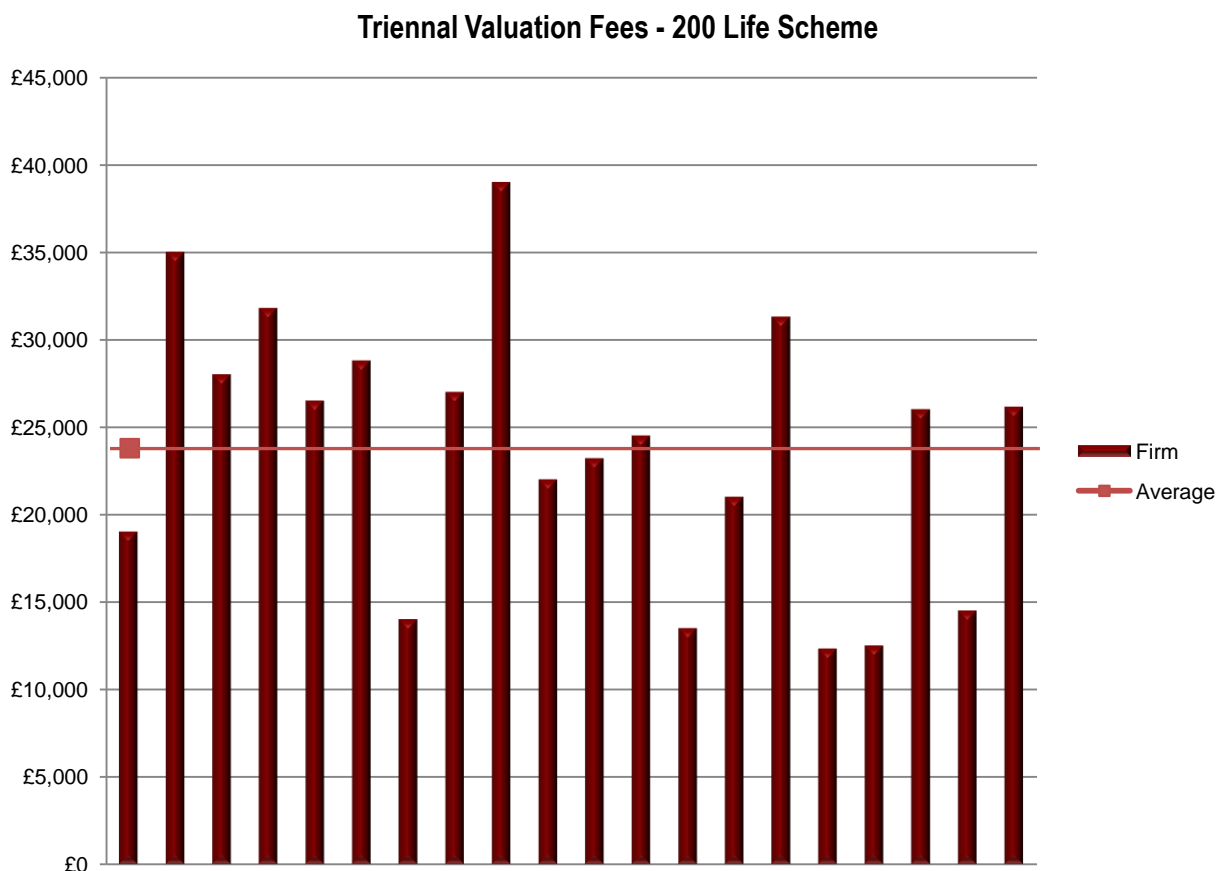
The average range of Annual Actuarial costs between the highest and lowest firms across all six scenarios is £30,300.

3.2. Graph Set 2

Graph 2a

Triennial Valuation Fee– 200 Life Scheme

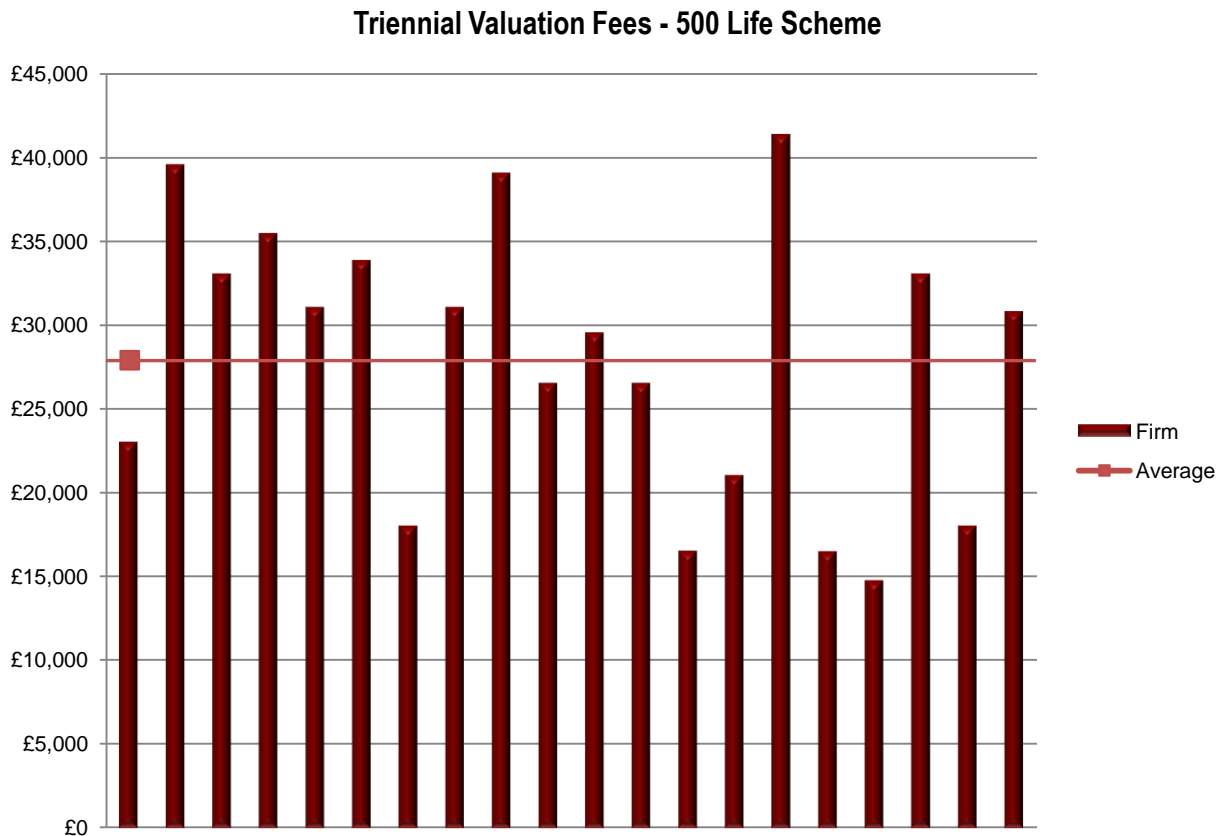
The data in these graphs represents the cost of a valuation up to delivery of draft results with no account being taken of any post delivery negotiations. There is a difference of £26,700 between the lowest and the highest fee. 11 of the 20 firms charge more than the average. The highest fee is more than three times the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 64% more than the average and the lowest fee is 48% less than the average.



Graph 2b

Triennial Valuation Fee– 500 Life Scheme

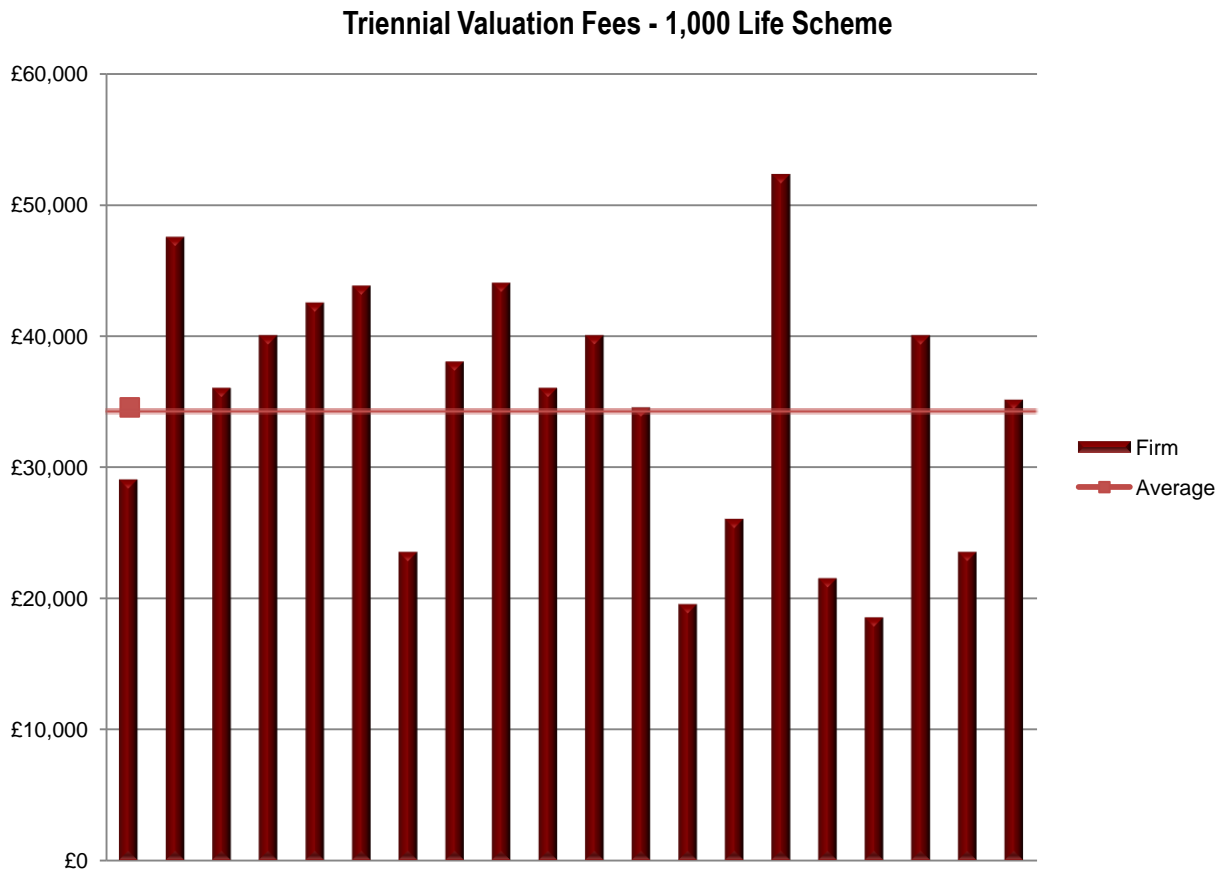
In this scenario the difference between the lowest and the highest fee has decreased by £200. Again 11 of the 20 firms charge more than the average. The highest charging firm is nearly three times more expensive than the lowest. When comparing the highest and lowest fees to the average cost, the highest fee is 48% more than the average and the lowest fee is 47% less than the average.



Graph 2c

Triennial Valuation Fee– 1,000 Life Scheme

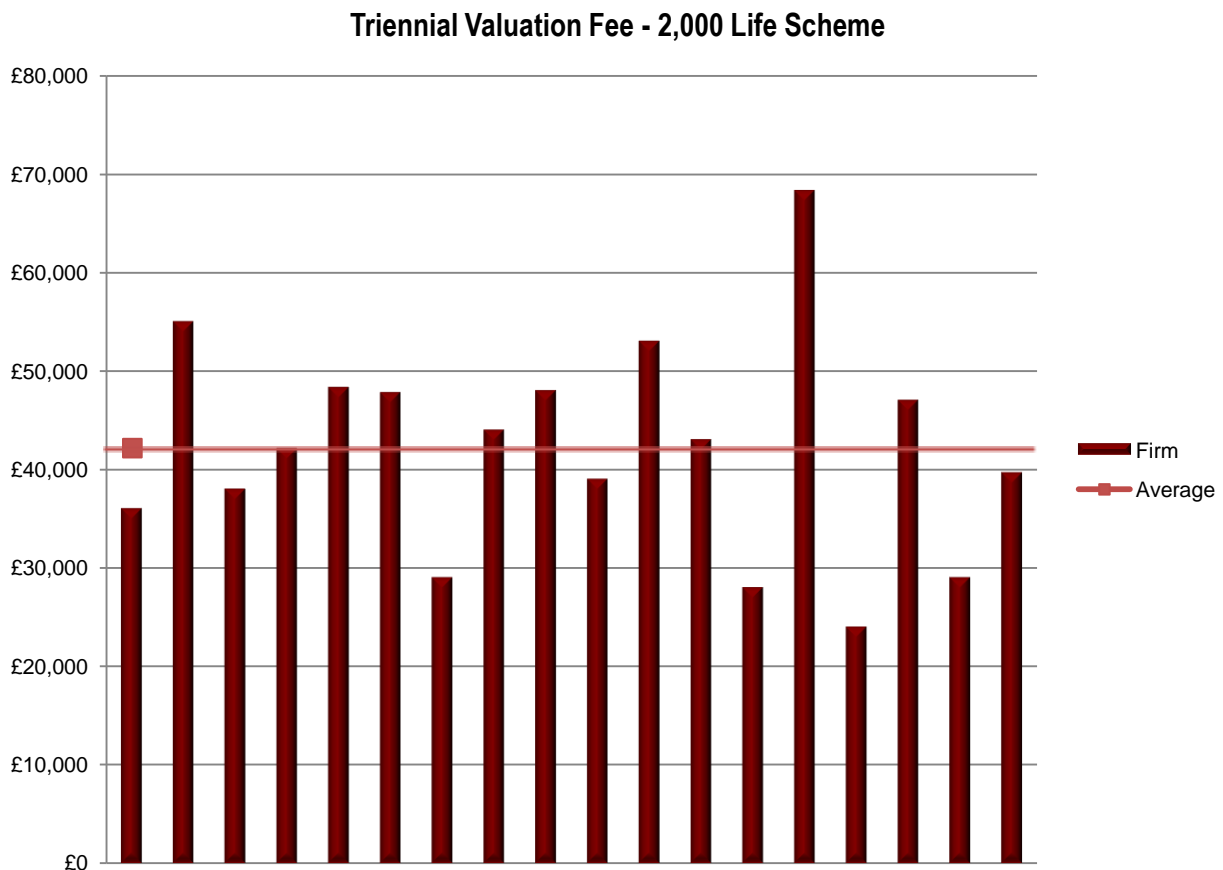
The cost difference between the highest and lowest fees has increased to £33,800 in comparison to a 500 life scheme. The majority of firms sit above the average fee with only eight below. The highest charging firm is nearly three times more expensive than the lowest. When comparing the highest and lowest fees to the average cost, the highest fee is 51% more and the lowest fee 47% less.



Graph 2d

Triennial Valuation Fee– 2,000 Life Scheme

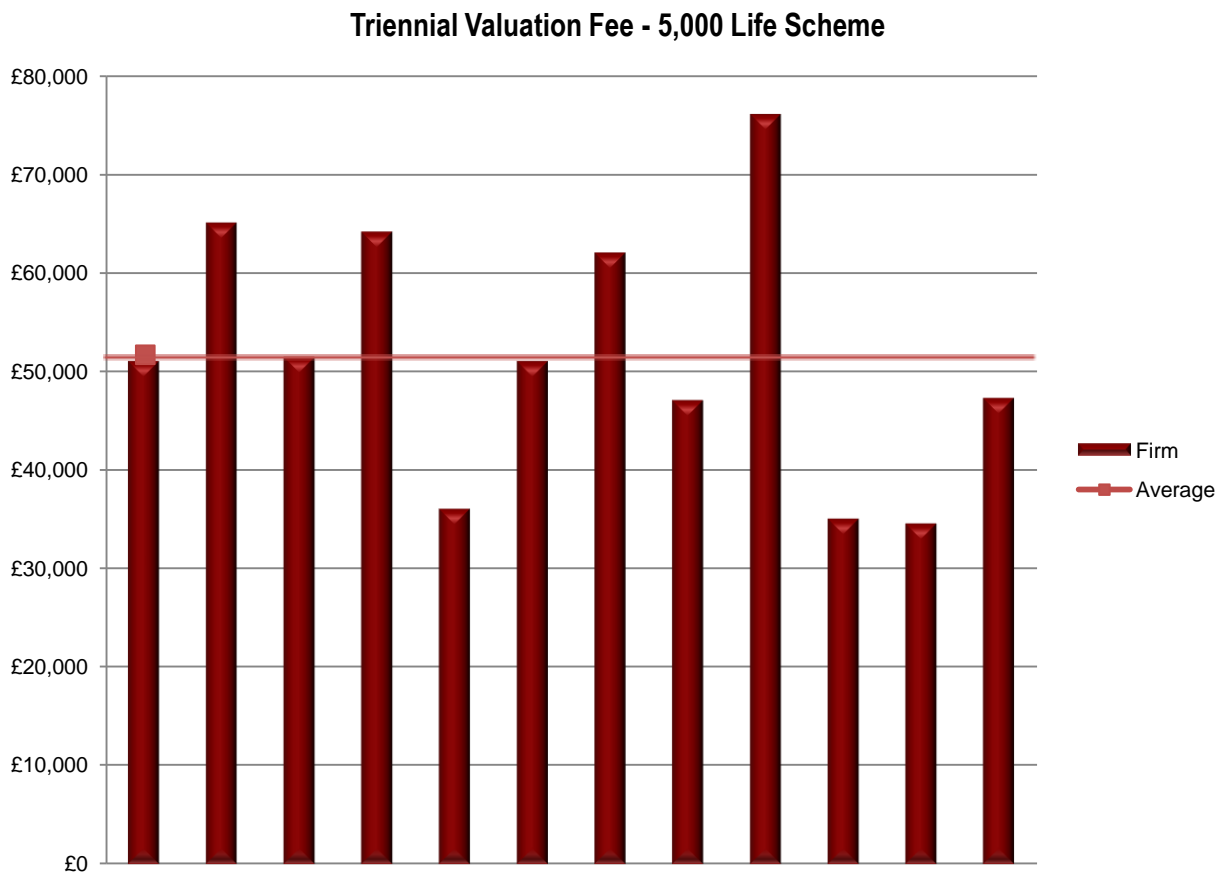
The difference between the highest and lowest fee has increased by more than £10,000, this shows a 53% increase from 2011 and but a 0.5% decrease compared to 2010. Half of the firms are more expensive than the average fee and half are less. The most expensive firm charges nearly three times as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 62% more and the lowest fee is 43% less.



Graph 2e

Triennial Valuation Fee– 5,000 Life Scheme

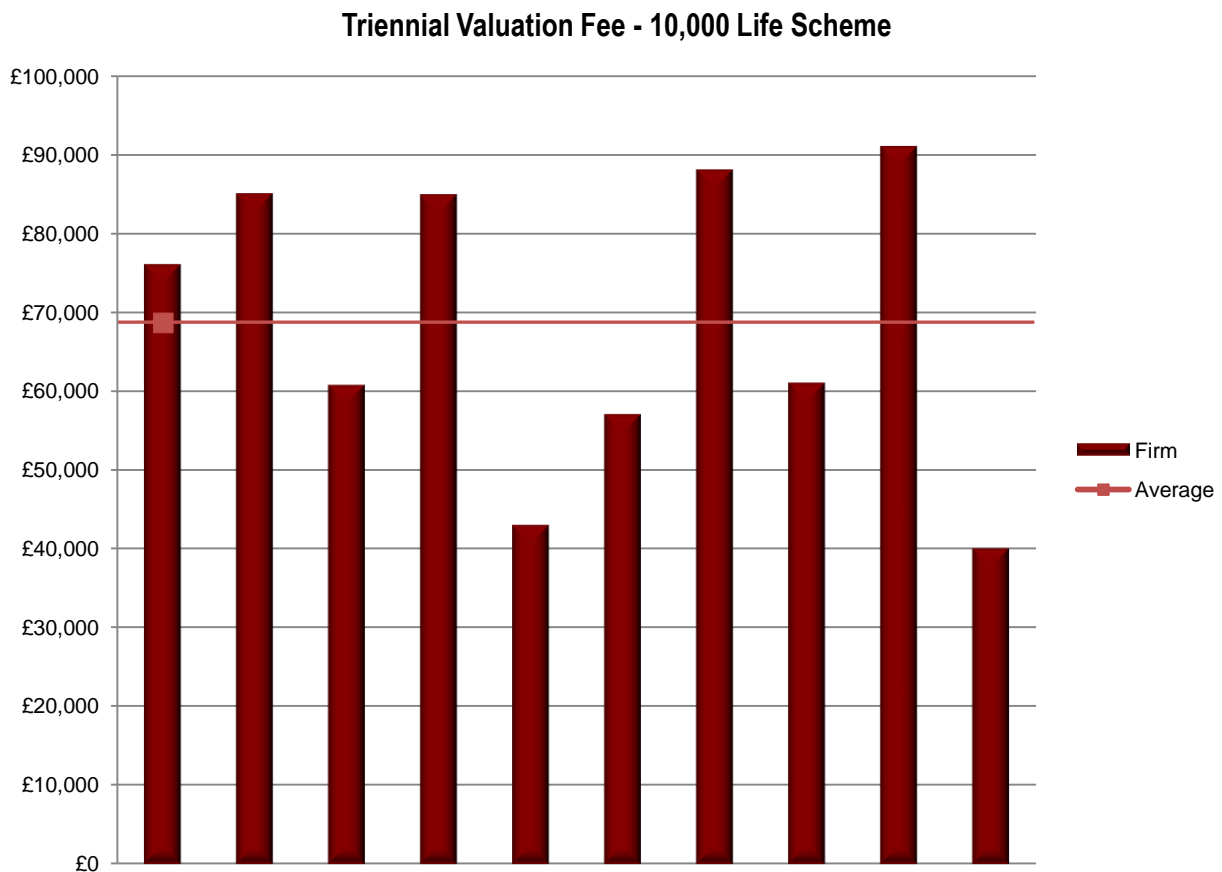
The range in cost between the highest and lowest has decreased to £41,500; this represents a 22.7% reduction compared to 2011 and a 30% reduction compared to 2010. Interestingly the majority of firms charge less than the average with only four of the 12 charging more. The most expensive firm charges more than twice as much as the lowest firm. The lowest firm charges 33% less than the average and the highest charges 47% more than the average.



Graph 2f

Triennial Valuation Fee– 10,000 Life Scheme

The range in cost between the highest and lowest has now significantly increased to £51,000. The cost range is 22% less than the cost range in 2011 and 43% less than the cost range in 2010. An equal number of firms sit both above and below the average. The most expensive fee is more than double the cost of the lowest. When comparing the highest and lowest fees to the average cost, the highest fee is 33% more and the lowest fee is 42% less.



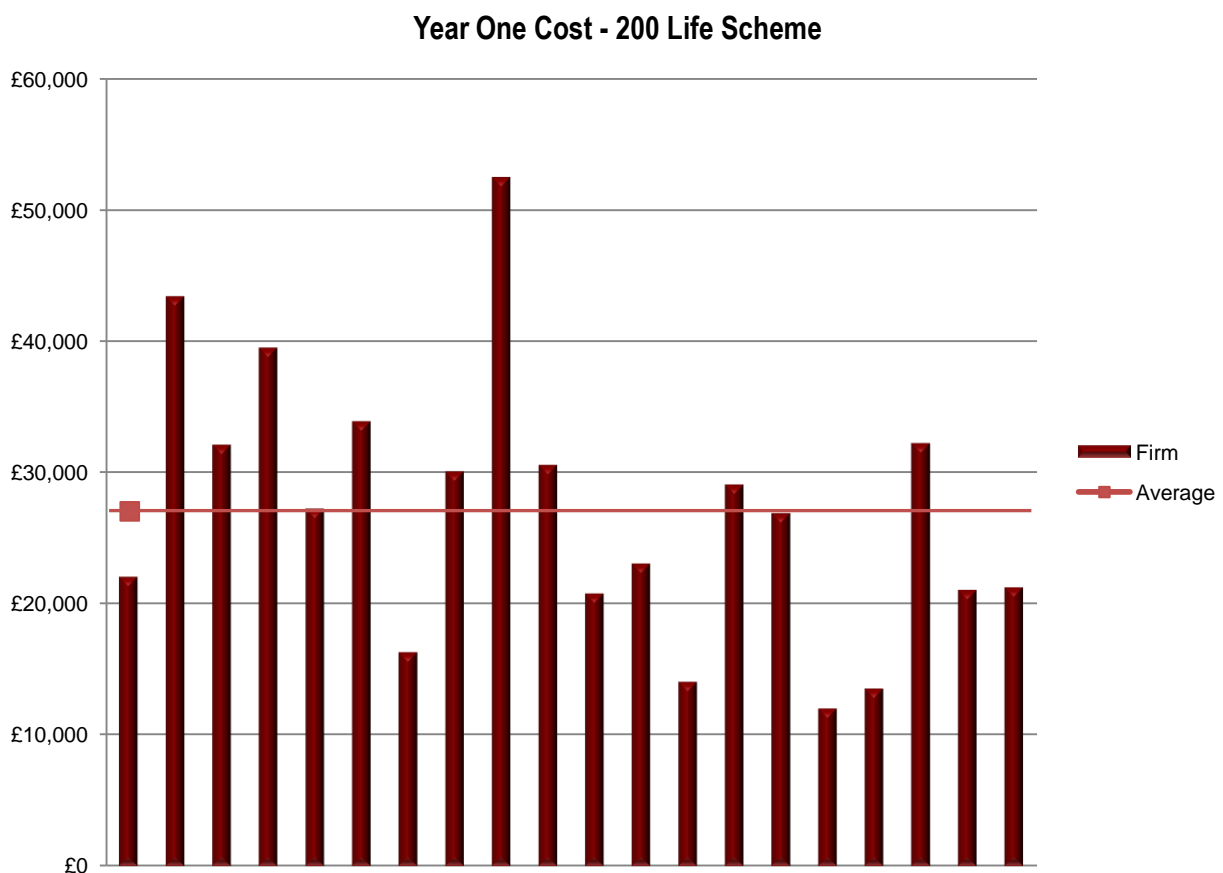
The average range of Triennial Valuation fees between the highest and lowest firms across all six scenarios is £37,300.

3.3. Graph Set 3

Graph 3a

Year One Cost – 200 Life Scheme

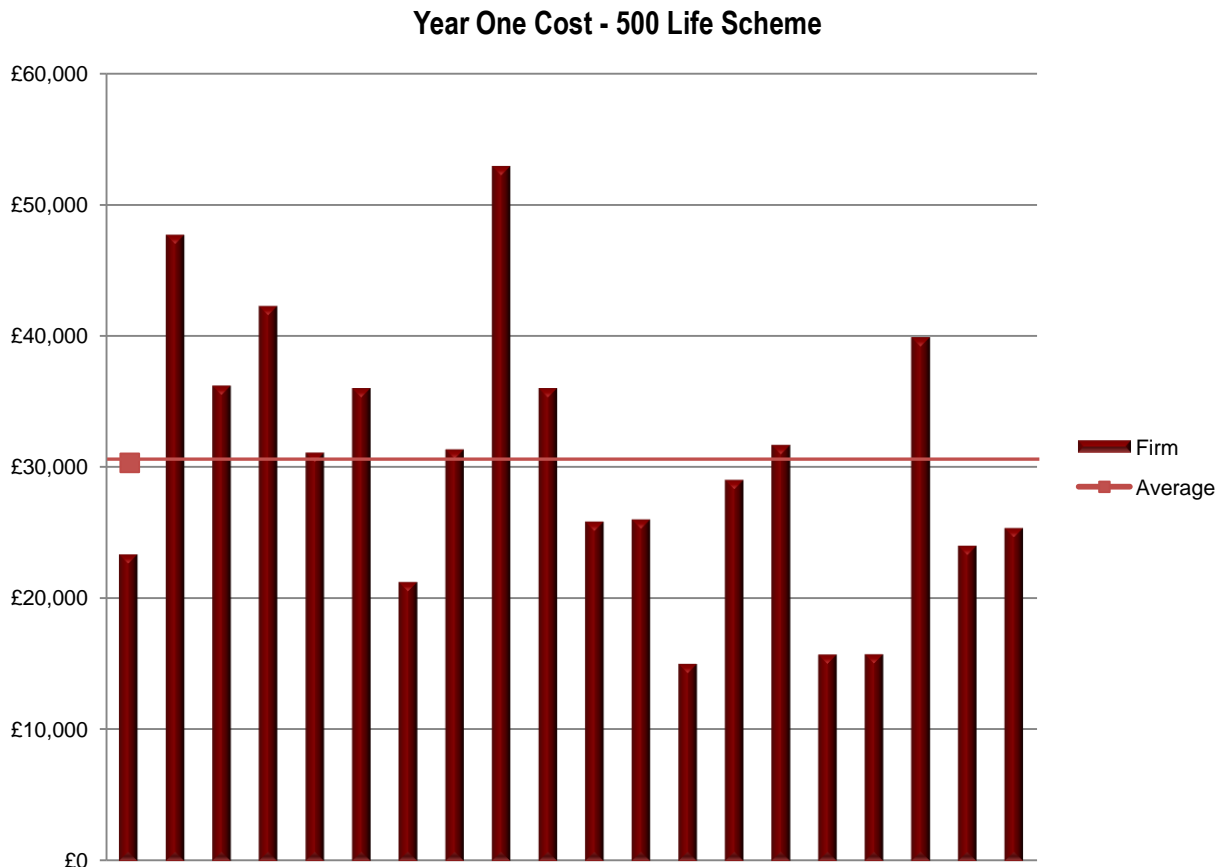
When grouping all the core actuarial services together to give a smoothed annual cost, this shows a significant difference in competitiveness between firms for effectively the same service. There is a difference of £40,400 between the lowest and the highest fee. Half of the firms charge more than the average. The highest charging firm is more than four times more expensive than lowest. When comparing the highest and lowest fees to the average cost, the highest fee is nearly twice as expensive. The lowest charging firm's fee is 56% less than the average.



Graph 3b

Year One Cost – 500 Life Scheme

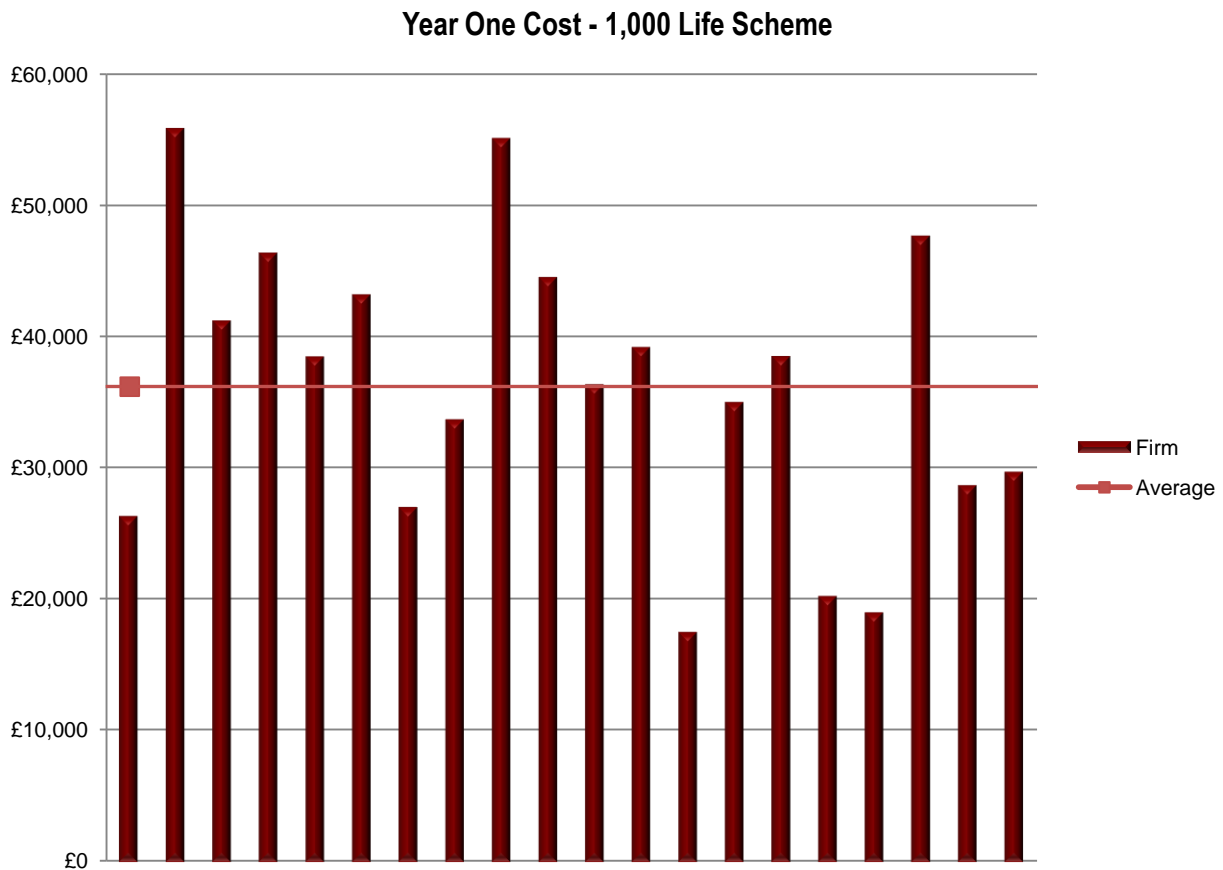
In this scenario the difference between the lowest and the highest fee has decreased by £2,500. Again half of the firms charge more than the average. The highest charging firm is more than three and a half times more expensive than the lowest. When comparing the highest and lowest charging firms' fees to the average cost, the highest fee is 75% greater than the average and the lowest is half of the average.



Graph 3c

Year One Cost – 1,000 Life Scheme

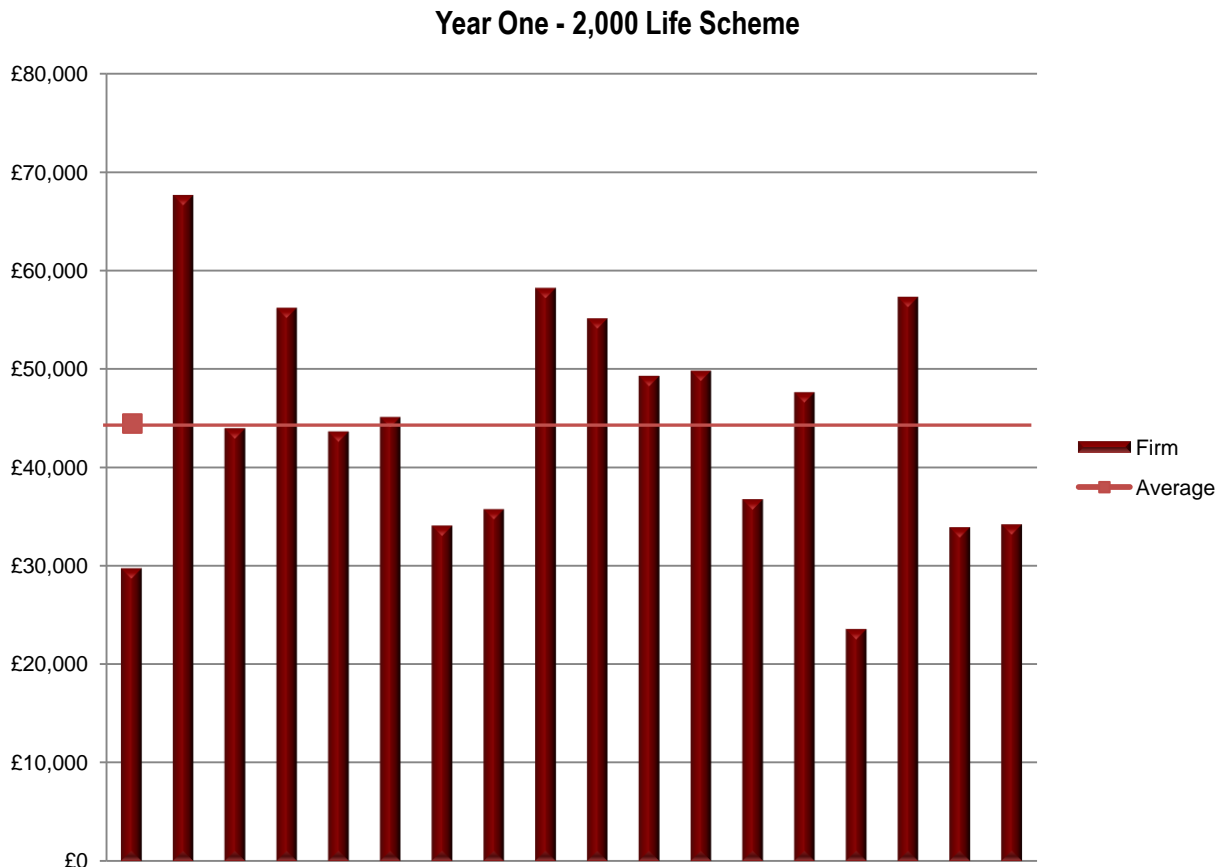
The cost difference between the highest and lowest fees has increased to £38,300 in comparison to a 500 life scheme. 11 firms are more expensive than average and nine firms charge below the average fee. The most expensive firm charges just over three times more than the lowest. When comparing the highest and lowest fees to the average cost, the highest fee is 54% more and the lowest fee 52% less.



Graph 3d

Year One Cost – 2,000 Life Scheme

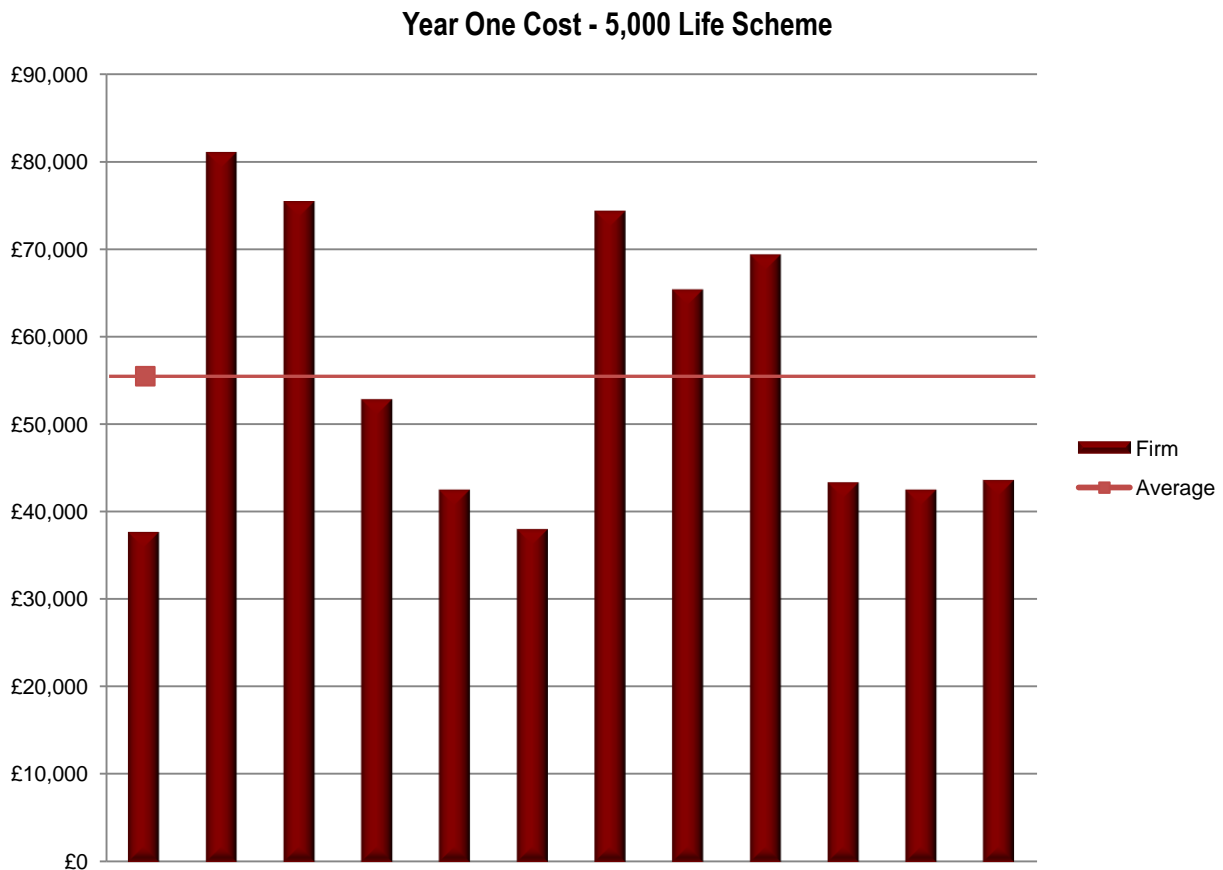
The difference between the highest and lowest fee has increased to £44,000 this is a 19% increase compared to 2011 and a 22% decrease on 2010. Half of the firms charge more than the average fee and half charge less. The most expensive firm charges nearly three times as much as the lowest. When comparing the highest and lowest fees to the average cost, the highest fee is 52% more and the lowest is 47% less.



Graph 3e

Year One Cost – 5,000 Life Scheme

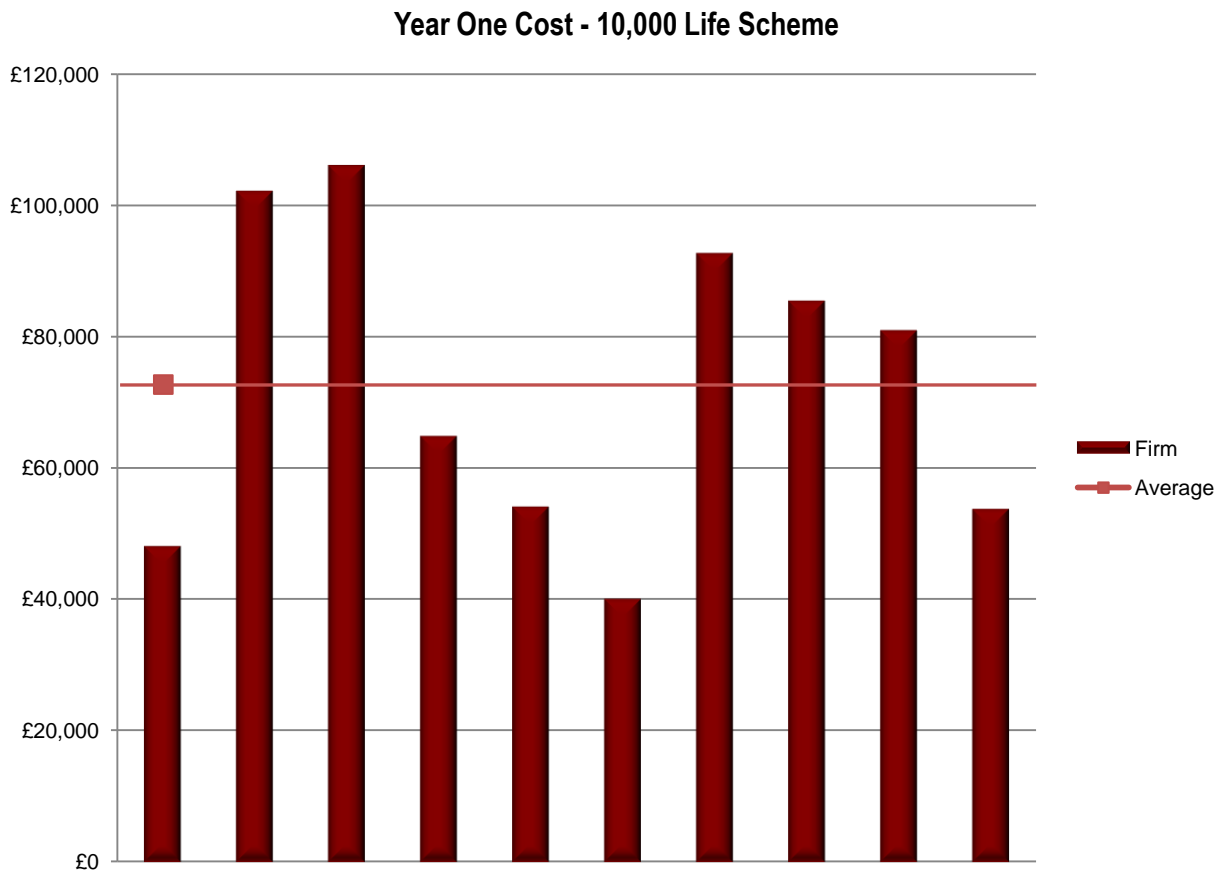
The range in cost between the highest and lowest has decreased by £700, this is only 3% more than 2011 but 39% less than 2010. Interestingly the majority of firms charge less than the average with only five of the 12 charging more. The most expensive firm charges more than twice as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 49% more and the lowest is 32% less.



Graph 3f

Year One Cost – 10,000 Life Scheme

The range in cost between the highest and lowest has now significantly increased to £65,900, this is 8% more when compared to 2011 but 29% less when compared to 2010. The split between firms costing more or less than the average is equal. The highest charging firm is more than double the cost of the lowest. The highest and lowest firms charge 45% more and less than the average respectively.

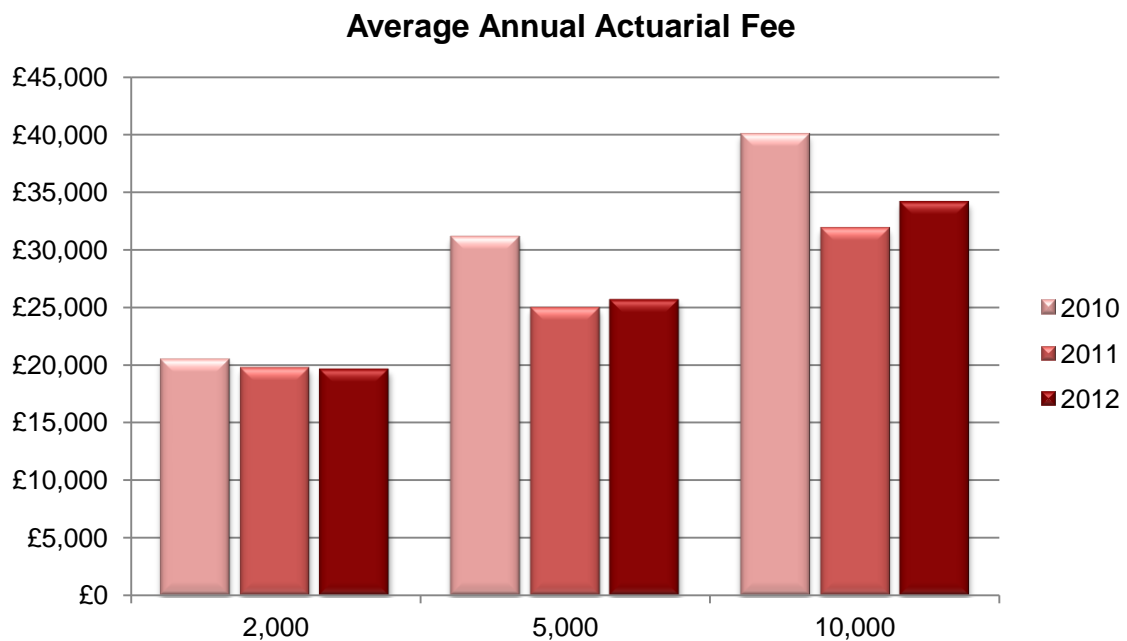


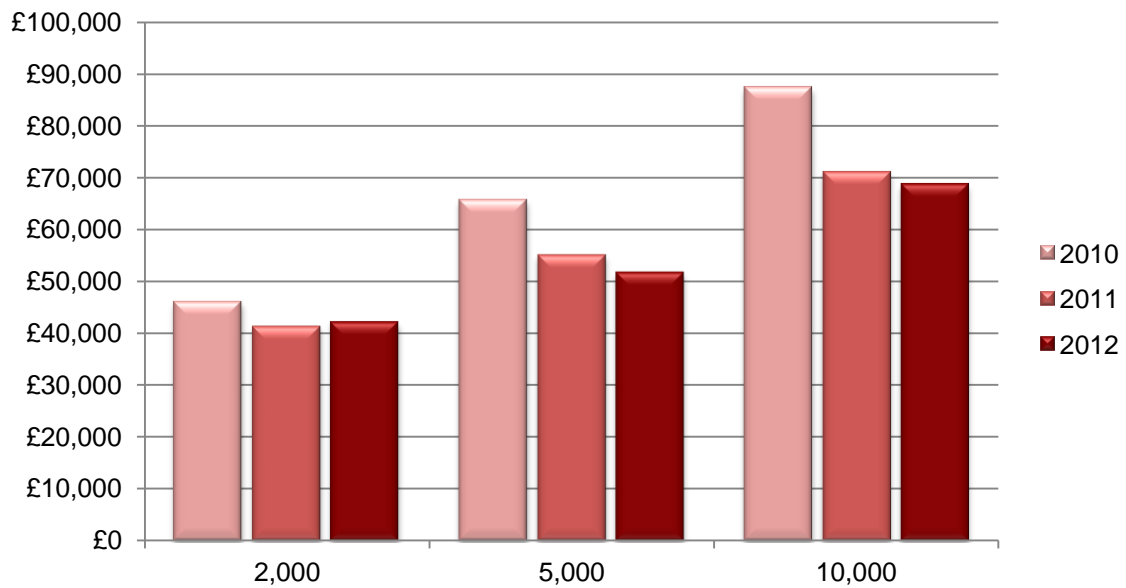
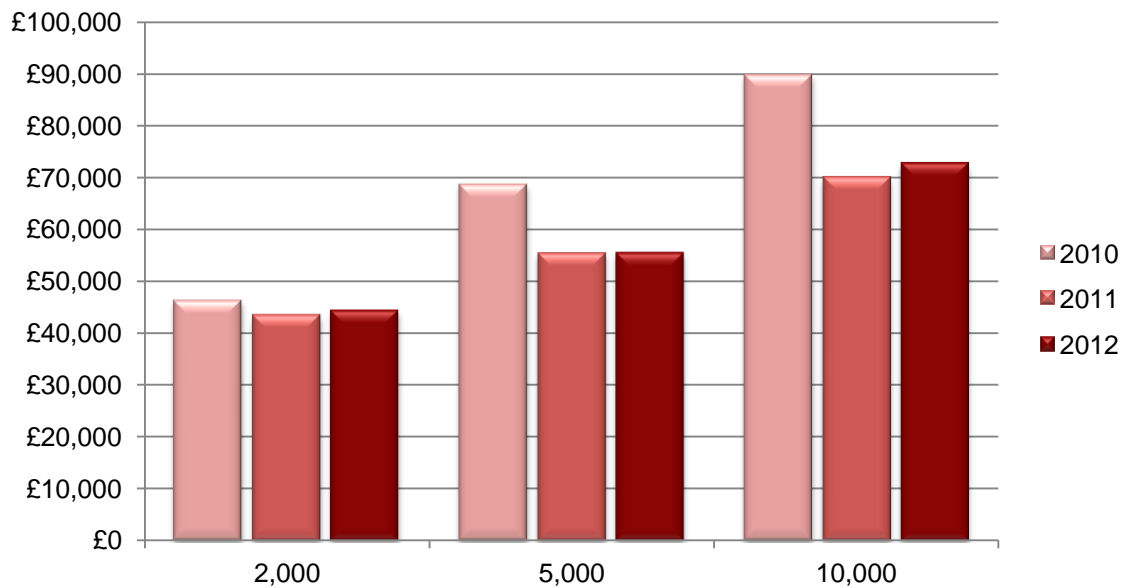
The average range of Year One costs between the highest and lowest firms across all six scenarios is £45,000.

4.0. Year on Year Comparison

We have now been running the **KGC Actuarial Fee Survey** for three years and we feel we are now in a position to compare the year on year survey results to identify any trends or anomalies. The table below shows the number of firms who have provided costs for each scheme scenario across each year. In the following graphs we look at the three keys areas and compare the average fees for 2,000, 5,000 and 10,000 life scheme sizes across the three survey years.

No. Firms	2010	2011	2012
2,000	13	14	18
5,000	11	13	12
10,000	10	13	10



Average Triennial Valuation Fee**Average Year One Cost**

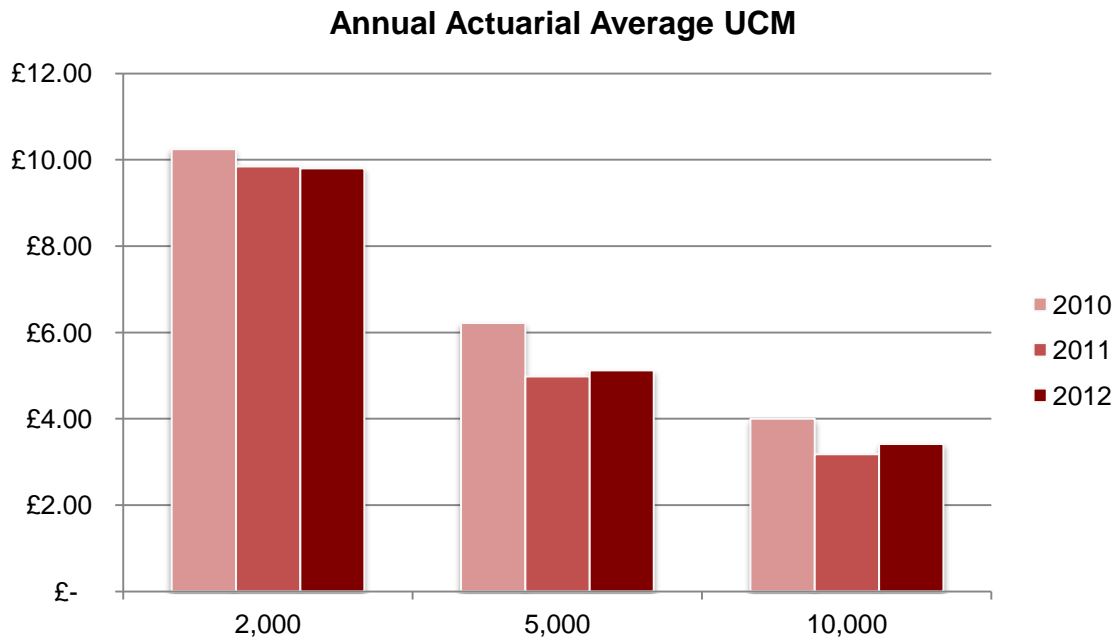
Using 2010 as the starting point sets the baseline for subsequent years. In 2011 average fees fell across the board year on year. 2012 proves a slightly different story, with the average annual actuarial fee reducing slightly for 2,000 lives, but increasing for 5,000 and 10,000 compared to 2011. Triennial valuation fees in 2012 went up for small schemes and down for larger schemes. Year one figures stayed the same or increased. All figures for both 2011 and 2012 were lower than 2010.

These results raised some questions:

- **was 2010 a popular year for valuations and did it affect fees across the board for that year?**
- **has the merger activity in the provider market affected pricing?**
- **is there increasing competition for smaller schemes?**
- **is 2013 another popular year for triennial valuation, and will we see figures increase again across the board, with a subsequent fall in 2014?**

5.0. The Cost Differentiation by Scheme Size

It is generally accepted economies of scale benefits schemes with larger memberships, but cost comparisons are more normally made within scheme sizes. This allows schemes of a similar size to judge their fees on a peer to peer basis. To understand fees at a more granular level across scheme sizes, we have analysed the average cost on a unit cost per member basis (UCM)³. The results demonstrate the extent that large scheme have the advantage.

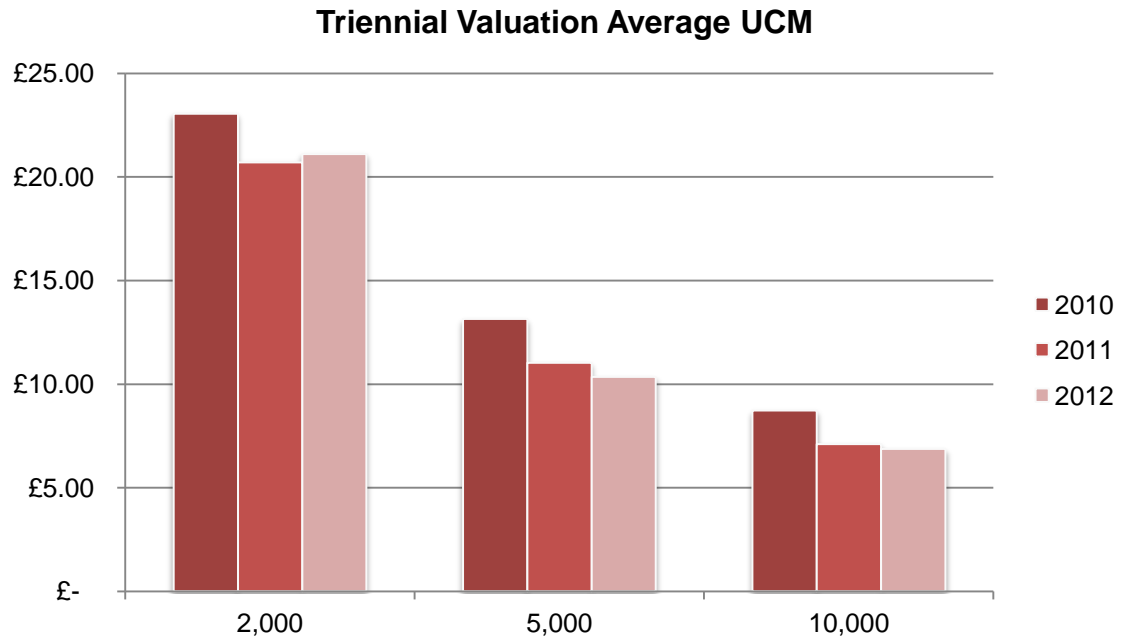


In 2012 the average **annual actuarial UCM** for a 2,000 life scheme is **187%** higher than for a 10,000 life scheme and a 5,000 life scheme is **50%** higher than a 10,000 life scheme.

In 2011 the average **annual actuarial UCM** for 2,000 life scheme is **210%** higher than a 10,000 life scheme, a 5,000 life scheme is **57%** higher than a 10,000 life scheme.

In 2010 the average **annual actuarial UCM** for a 2,000 life scheme is **156%** higher than a 10,000 life scheme, a 5,000 life scheme is **56%** higher than a 10,000 life scheme.

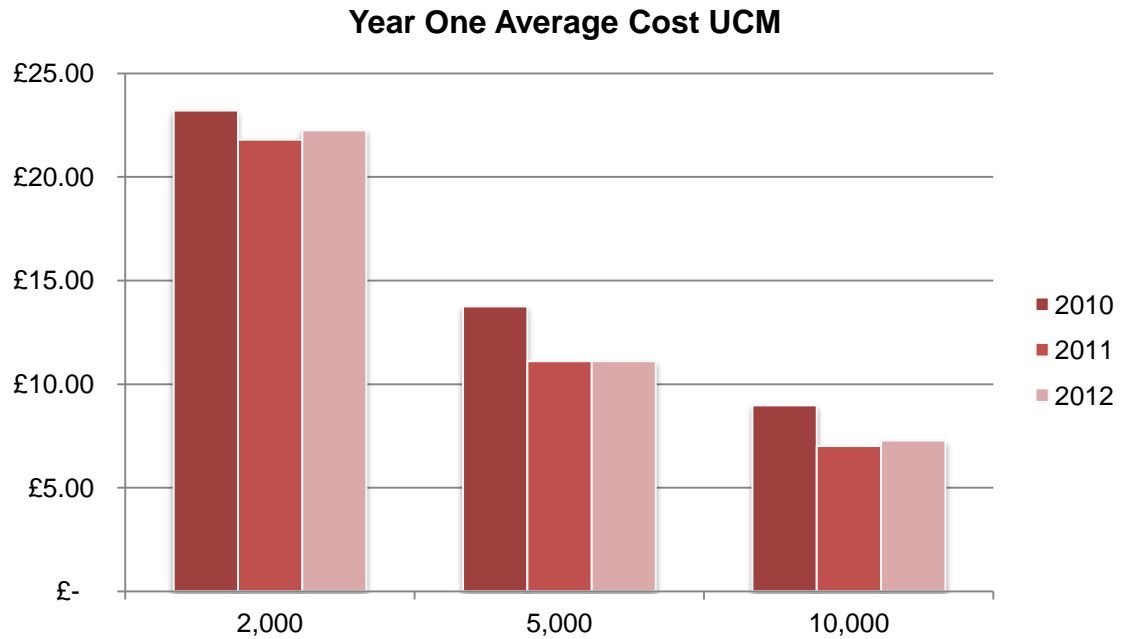
³ Unit Cost per Member is calculated on a straight arithmetic basis 'average cost' divided by member number in scheme



In 2012 the average **triennial valuation UCM** for a 2,000 life scheme is **207%** higher than a 10,000 life scheme, a 5,000 life scheme is **51%** higher than a 10,000 life scheme.

In 2011 the average **triennial valuation UCM** for a 2,000 life scheme is **191%** higher than a 10,000 life scheme, a 5,000 life scheme is **55%** higher than a 10,000 life scheme.

In 2010 the average **triennial valuation UCM** for a 2,000 life scheme is **164%** higher than a 10,000 life scheme, a 5,000 life scheme is **51%** higher than a 10,000 life scheme.



In 2012 the average **year one UCM** for a 2,000 life scheme is **206%** higher than a 10,000 life scheme, a 5,000 life scheme is **53%** higher than a 10,000 life scheme

In 2011 the average **year one UCM** for a 2,000 life scheme is **211%** higher than a 10,000 life scheme, a 5,000 life scheme is **58%** higher than a 10,000 life scheme

In 2010 the average **year one UCM** for a 2,000 life scheme is **158%** higher than a 10,000 life scheme, a 5,000 life scheme is **53%** higher than a 10,000 life scheme.

In general a 2,000 life scheme will pay between 2 ½ and 3 times more than a 10,000 life scheme on a per member basis, compared to a 5,000 life scheme which will pay between 50% and 58% more. There is a significant cost differential across all years between the large and small schemes.

5.1. Comparing 2010 & 2012 Average UCM

The fees submitted to the survey for 2012 are all lower compared to the figures received for the 2010 survey.

Average Cost Per Member	2010	2012	% Difference
Annual Actuarial			
2,000	£10.25	£9.80	4.4
5,000	£6.22	£5.12	17.7
10,000	£4.00	£3.42	15
Triennial Valuation			
2,000	£23.05	£21.10	8.5
5,000	£13.14	£10.34	21.3
10,000	£8.73	£6.87	21.3
Year One			
2,000	£23.20	£22.25	4.1
5,000	£13.74	£11.10	19.2
10,000	£8.98	£7.27	19

Whilst figures have reduced for all schemes between 2010 and 2012, it is interesting to note the percentage reductions between the scheme sizes differ substantially – with larger schemes showing a much greater percentage reduction. Actuarial service providers to the large schemes have been able to reduce fees by up to as much as **21.3%** for the average **triennial valuations** compared to only **8.5%** for the 2,000 life scheme. This difference is even more marked in the average **year one** fees with the reduction in the average fees for a 2,000 life scheme being only **4.1%** compared to circa **19%** for the reduction in the average for the two larger schemes.

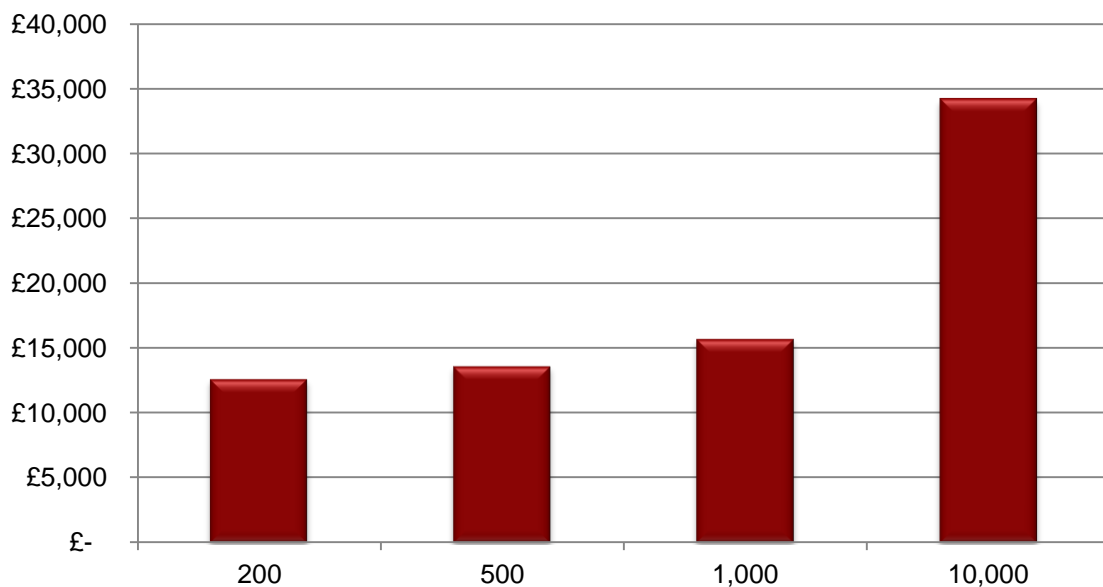
Economies of scale can explain some of the differences but with more players in the 2,000 life market it is interesting that the reduction is not more comparable. Have the providers reached a peak in their ability to automate in this area or is it just a representation of the fixed cost of meeting regulatory compliance?

6.0. New for 2012

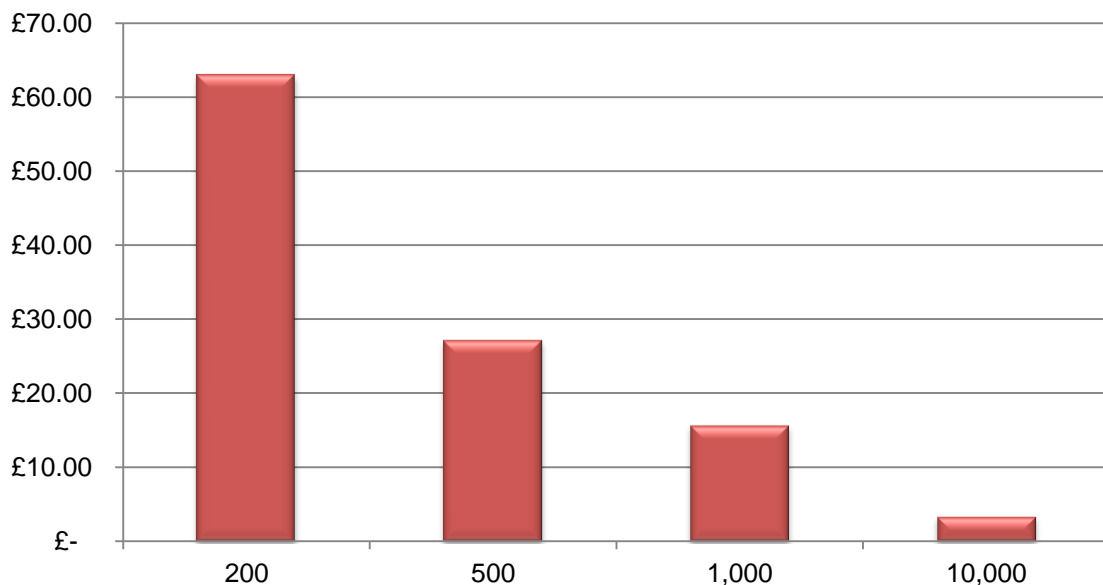
Including smaller schemes in the 2012 **KGC Actuarial Fee Survey** produced some very interesting outcomes. There are certain processes and procedures that must be carried out irrespective of the size of a scheme. However the analysis of the survey results demonstrate how increasingly difficult it is for smaller schemes to meet their obligations in the context of restricted budgets. The graphs below compare the average fee and UCM for 200, 500 and 1,000 across comparable costs for a 10,000 life scheme. They also show how each of these smaller scheme sizes compare to the largest scheme in the survey.

In 2012 the average **annual actuarial** cost per member for a 200 life scheme is **4 times** higher than a 1,000 life scheme; a 500 life scheme is **73%** higher than a 1,000 life scheme. Average **annual actuarial** fees range from **£12,600** for a scheme of 200 lives to **£34,200** for a 10,000 life scheme, equating to a range per member of **£63** down to **£3.42** respectively.

Annual Actuarial Average Fee



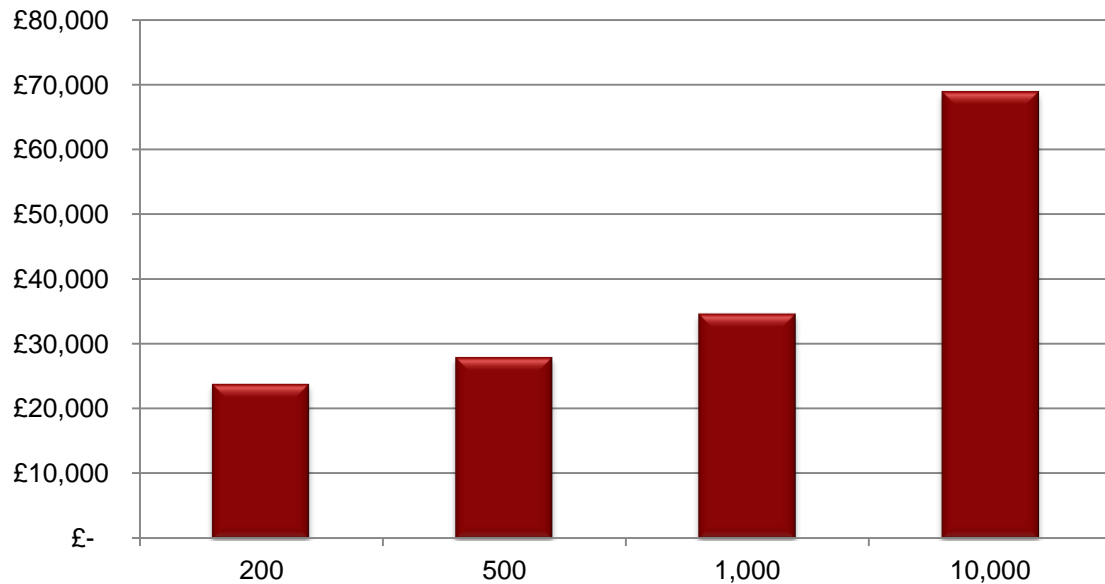
Annual Actuarial Average UCM



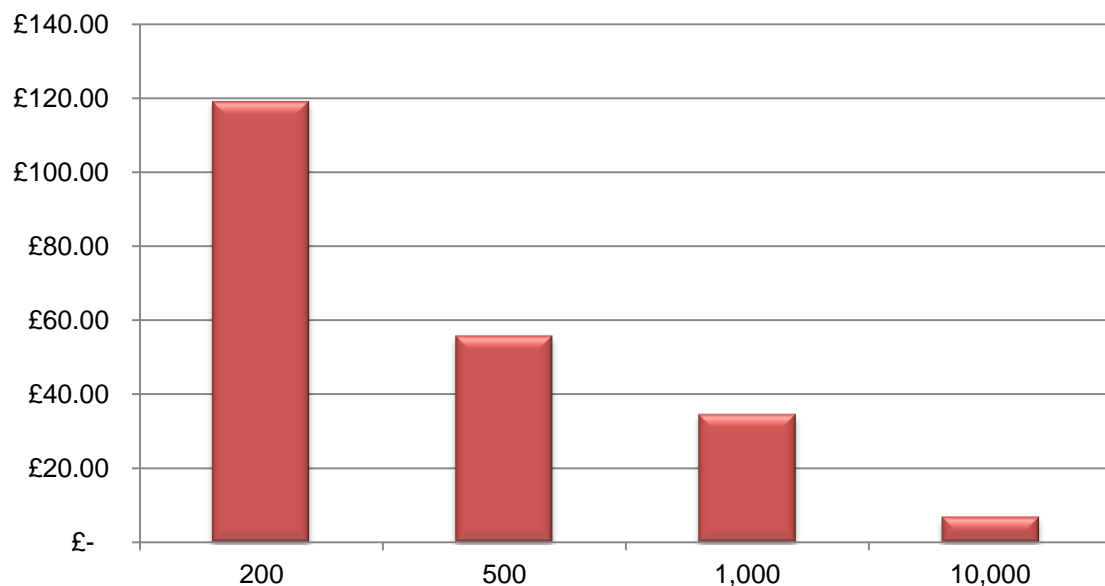
In 2012 the average **triennial valuation** cost per member for a 200 life scheme is **3 ½ times** higher than a 1,000 life scheme, a 500 life scheme is **61%** higher than a 1,000 life scheme.

The average fees for **triennial valuation** range from **£23,800** for a scheme of 200 lives to **£68,700** for a 10,000 life scheme, equating to a range per member of **£119** down to **£6.87**.

Triennial Valuation Average Fee

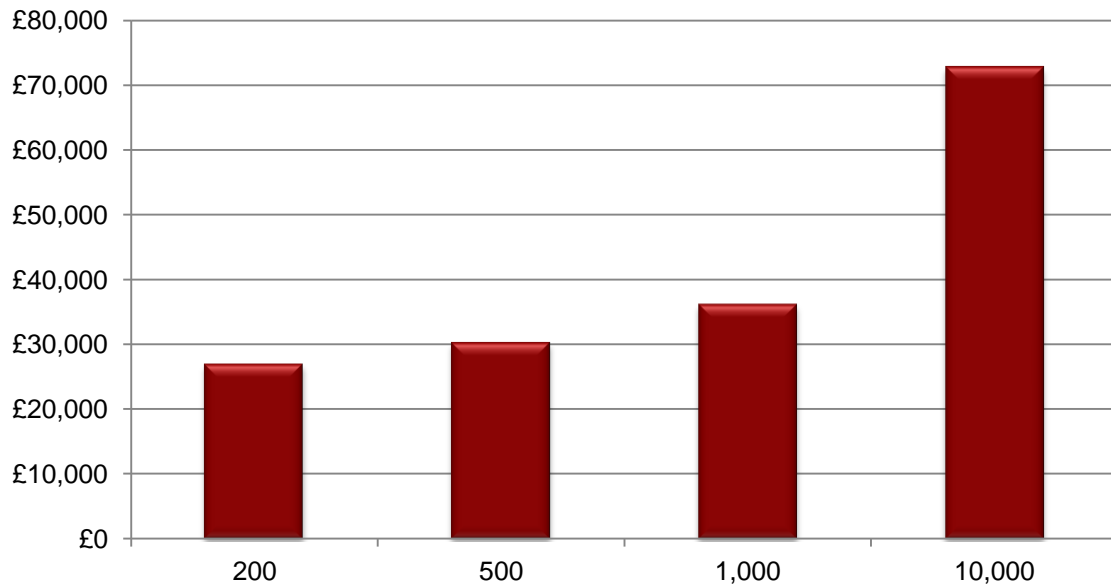


Triennial Valuation Average UCM

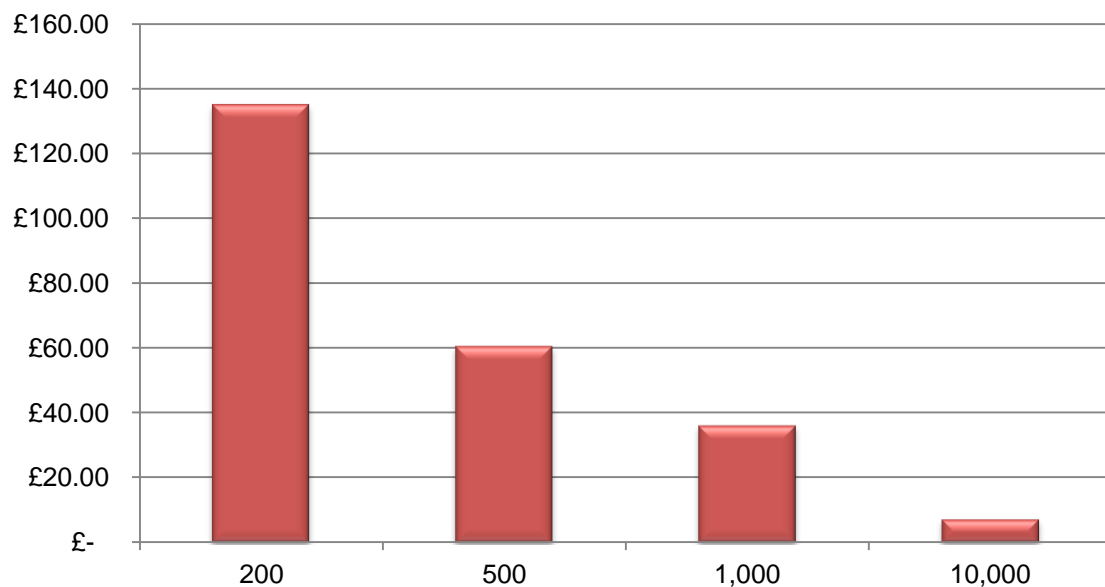


In 2012 the average **year one** UCM for a 200 life scheme is nearly **4 times** higher than in a 1,000 life scheme, and the UCM in a 500 life scheme is **67%** higher than for a 1,000 life scheme.

Average Year One Cost



Average Year One UCM



Comparing 200 and 10,000 life schemes. . .

- Annual Actuarial - 200 life scheme is more than 18 times higher than 10,000
- Triennial Actuarial - 200 life scheme is more than 17 times higher than 10,000.
- Year One Cost - 200 life scheme is 18.5 times higher than 10,000.

7.0. Proportion of Core Services

Based on our experience of supporting trustees in benchmarking their schemes and running procurement exercises, we have built a framework of 23 core services required by all schemes regardless of size. All of the firms were asked to price these specific services for the model schemes across each size category.

- annual actuarial fees – 13 firms offer 100% of tasks for a 200, 500, 1,000 life scheme, this decreases to 12 for a 2,000 life scheme. Eight firms offer 100% of tasks for a 5,000 life scheme and six offer 100% for a 10,000 life scheme.
- triennial valuation fees – 16 firms offer 100% of tasks for a 200, 500 and 1,000 life scheme reducing to 15 for a 2,000 life scheme. 10 firms offer 100% of tasks for a 5,000 life scheme and eight firms offer 100% for a 10,000 life scheme.
- year one cost – 10 firms offer 100% of tasks for a 200, 500, 1,000 and 2,000 life scheme. This decreases to seven for a 5,000 life scheme and six for a 10,000 life scheme.

Firms can offer other services in addition to the KGC core range. In the survey¹³ of the firms offer one or more of these services within their own core fees. However, only five of the 20 firms offer more than half of the non-core services we identified within their core fees. Only one firm offers 92% of these added value services within the core fees.

8.0. Services Provided

The chart below sets out the tasks we consider should be included in the core service types. All firms were asked to state if these tasks are included in their own core services.

Core Tasks	Y/N	Notes
Annual Actuarial		
Production of annual actuarial report(s) as required by legislation.		
Production of annual Summary Funding Statement (SFS) - including approximate annual updates of funding position.		
Notification and guidance on PPF Levy (level of levy to be expected in coming year).		
General advice on PPF levy (to be expected in coming year). Guidance regarding contingent assets, D&B monitoring and PPF levy.		
Calculate/deliver and certify annual deficit reduction figures.		
Annual submission of deficit reduction certificates to PPF via Exchange.		
Provide input to require mandatory documents certification e.g. Scheme Return, Annual Accounts etc.		
Provide monthly market value adjustment to CETV factors.		
Triennial Actuarial		
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 TV's (i.e. not modeller) not including advice on assumptions/factors or member test cases.		
Provision of a standard set of actuarial factors e.g. early retirement, commutation, late retirement.		
Ad Hoc Actuarial		
Provide legislative updates (information only not in depth advice).		
Provide papers for trustee's on topical actuarial issues.		
Periodic Actuarial		
Attendance at Trustee meetings in a non-valuation year (assume two half day meetings).		
Triennial Valuation		
Specification of data requirements and liaison with Scheme administrators 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.		
Calculation of results, meeting to deliver preliminary results and draft valuation report.		
Advice in relation to term of Recovery Plan, preparation of Recovery Plan and submission to tPR.		
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 Actuarial		
Advice on pension and other benefit accounting costs for purposes of FRS17, IAS19 and FAS 87 accounting (assume one set of accounting figures and provision of draft disclosures for one employer).		

The chart below sets out tasks which are generally offered outside of a core service, we asked firms to let us know how these services are charged. However we also asked each firm to state if they provide any of these added value services within their own core offering.

Non Core Tasks	Y/N	Notes
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 including 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. Please specify.		
Actuarial input/comment in relation to Statement of Investment Principles (SIP).		
Liaise with trustees on scheme administration matters as and when required.		
Discussions with tPR in relation to funding plans, incl. particular Recovery Plans, 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 and the provision of TVs where schemes are not fully funded.		
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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