KGC's Fourth Actuarial Fee Survey
December 2013

KIM GUBLER CONSULTING LTD

...independence, focus, clarity

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1.0. Introduction

Earlier in 2013 19 firms accepted our invitation to participate in the fourth KGC Actuarial 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.

200, 500 & 1,000 life schemes
- 19 firms provided fees

2,000 life scheme
- 16 firms provided fees

5,000 life scheme
- 11 firms provided fees

10,000 life scheme
- 10 firms provided fees

The main components[1] 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.

[1] Based on experience derived from KGC procurement and benchmarking exercises
[2] We acknowledge schemes are unlikely to incur a true 'year one cost' because tasks within annual/triennial actuarial may

1.2 Basis of Responses

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.

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.

Fees included in the responses would generally be considered pre-negotiation and so take no account of the attractiveness (or otherwise) of a client. This is an aspect that can be a considerable cost influencer.

2.0 Fee Analysis

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 cost[2] and includes:

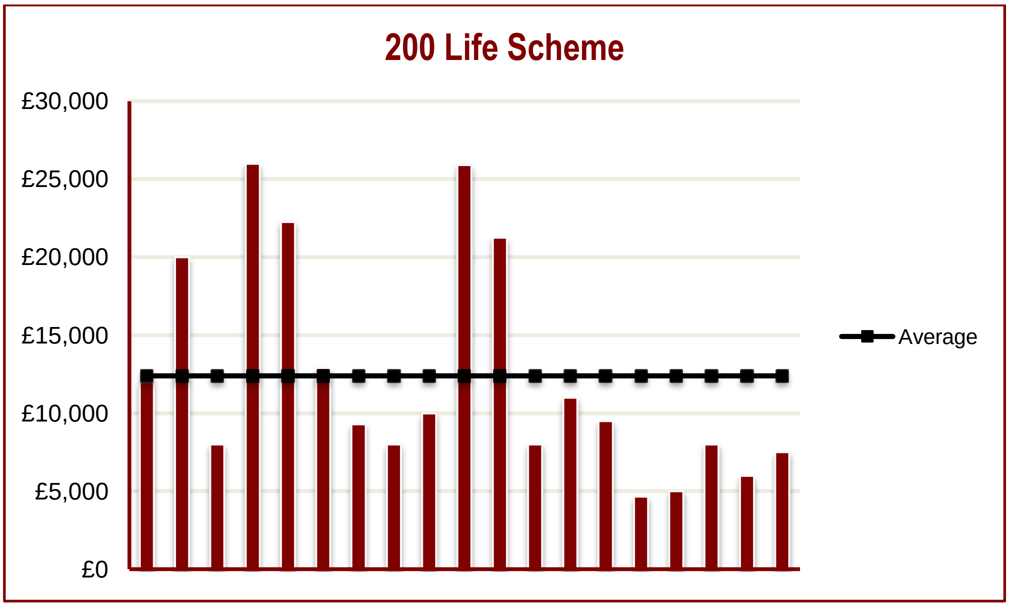
- annual actuarial
- ad hoc actuarial
- periodic actuarial
- triennial actuarial tasks – as a one off cost
- corporate actuarial
- valuation cost divided by three

[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.

2.1 Annual Actuarial Fee

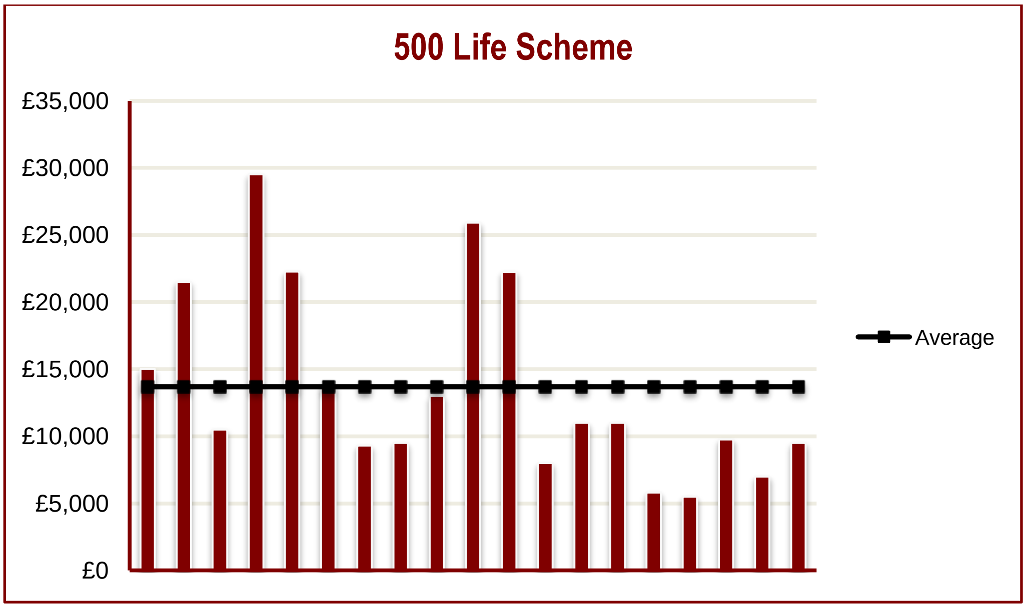
Graph 1a

For a 200 life scheme there is a difference of £21,300 between the lowest and the highest fee. Six firms sit above the average fee and 13 below. The most expensive firm charges five and a half times more than 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 62% less.



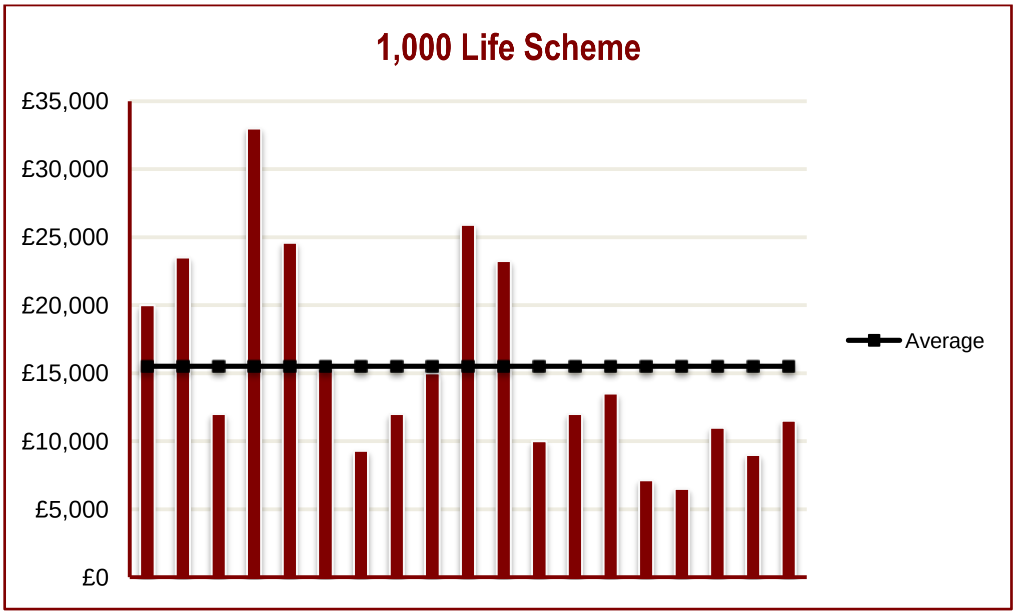
Graph 1b

At 500 lives the difference between the highest and lowest fee has increased by £2,700 to £24,000 when compared to a 200 life scheme. Seven firms are now more expensive than the average fee and 12 are less than the average fee. Again, the most expensive firm charges nearly five and a half times more than the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is more than twice as expensive and the lowest fee is 60% less.



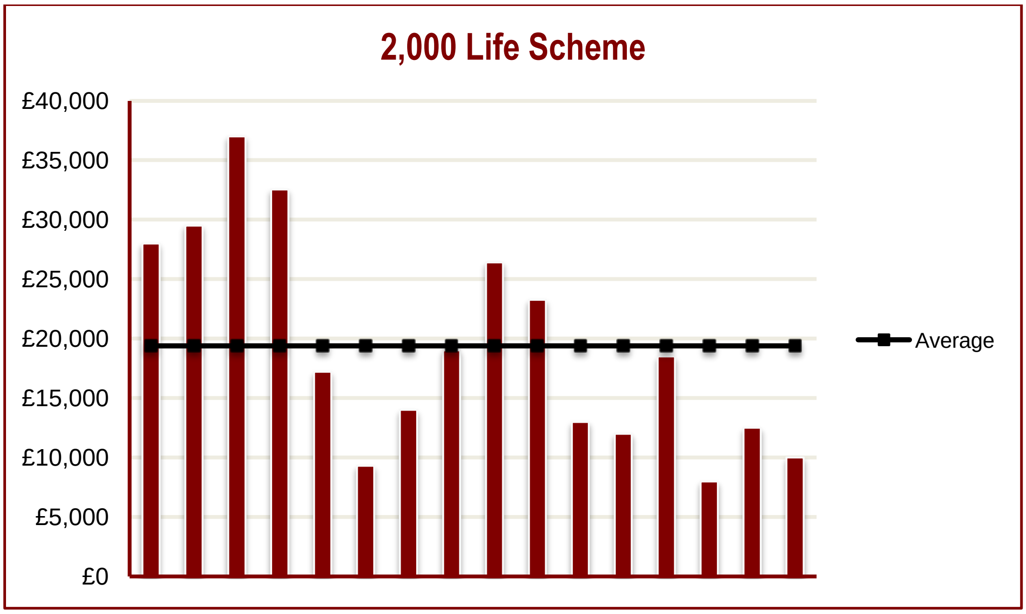
Graph 1c

At 1,000 lives the cost difference between the highest and lowest fees has increased in comparison to a 500 life scheme by a further £2,500 to £26,500. Six firms sit above the average fee and 13 below. The most expensive firm charges five times more than the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is twice as expensive and the lowest fee 58% less.



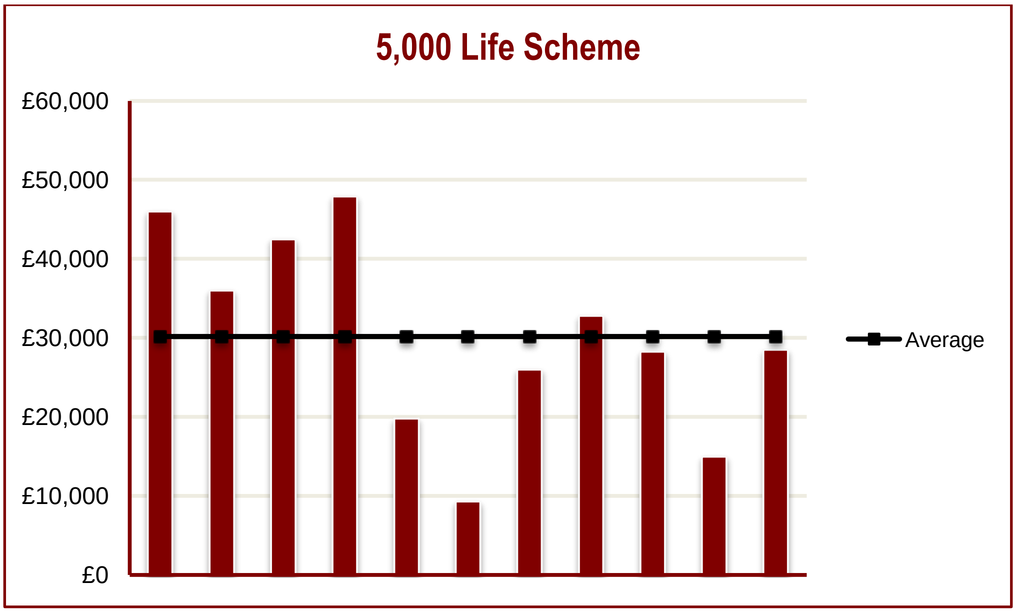
Graph 1d

The difference between the highest and lowest fee for 2,000 lives has increased to £29,000. This is a 23% increase on 2012 and a 38% increase on 2011. Six of the 16 firms are more expensive than the average fee. The most expensive firm charges four and a half times more than the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is nearly twice as expensive and the lowest fee is 59% less.



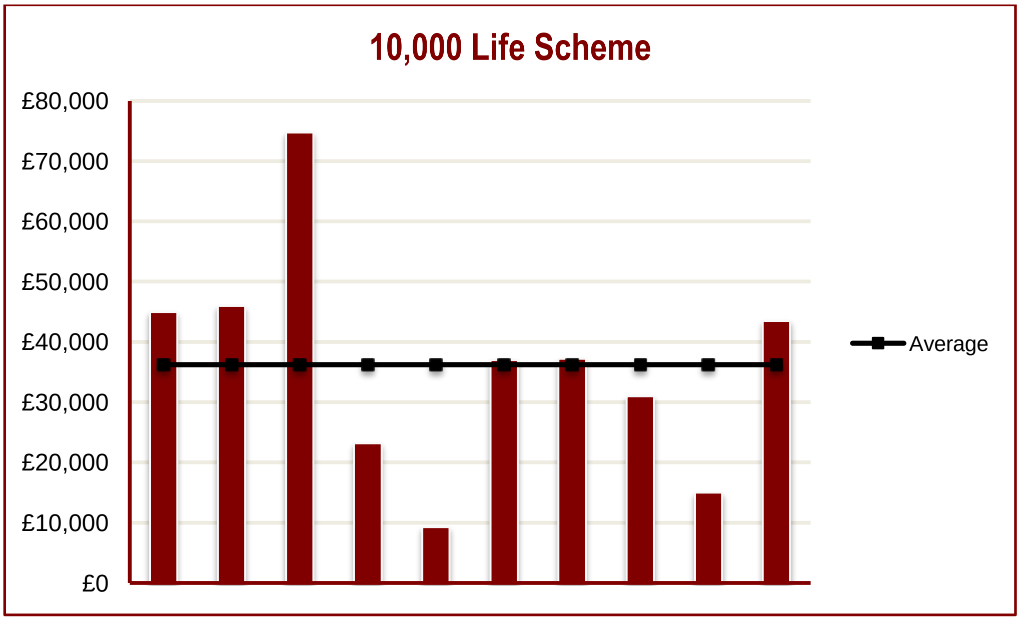
Graph 1e

At 5,000 lives, six firms charge less than the average fee and five firms charge more. The cost difference between the highest and lowest fee has increased by £9,600 to £38,600 when compared to a 2,000 life scheme. This cost difference is nearly 9% more than 2012 and 43% more than 2011. The most expensive firm charges five times more than the lowest firm. The highest fee is 59% more than the average and the lowest fee is 69% less than the average.



Graph 1f

At the largest survey scheme size, the range in cost between the highest and lowest has now significantly increased to £65,500. This is a 6% increase on 2012 and 26% increase on 2011. Four firms sit below the average fee and six firms sit above the average fee. The most expensive fee is eight 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 74% less.

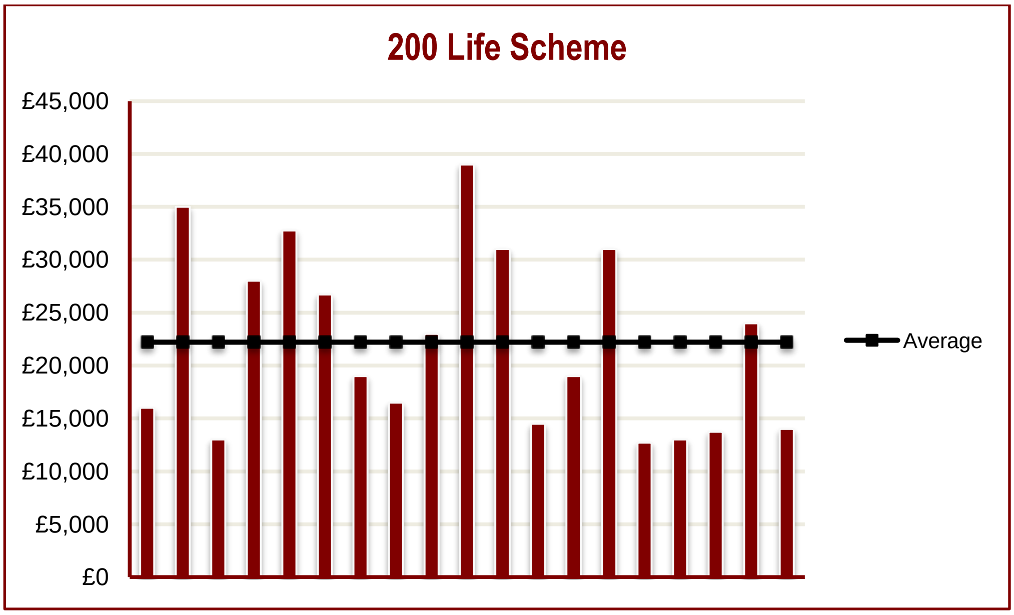


2.2 Triennial Valuation Fee

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.

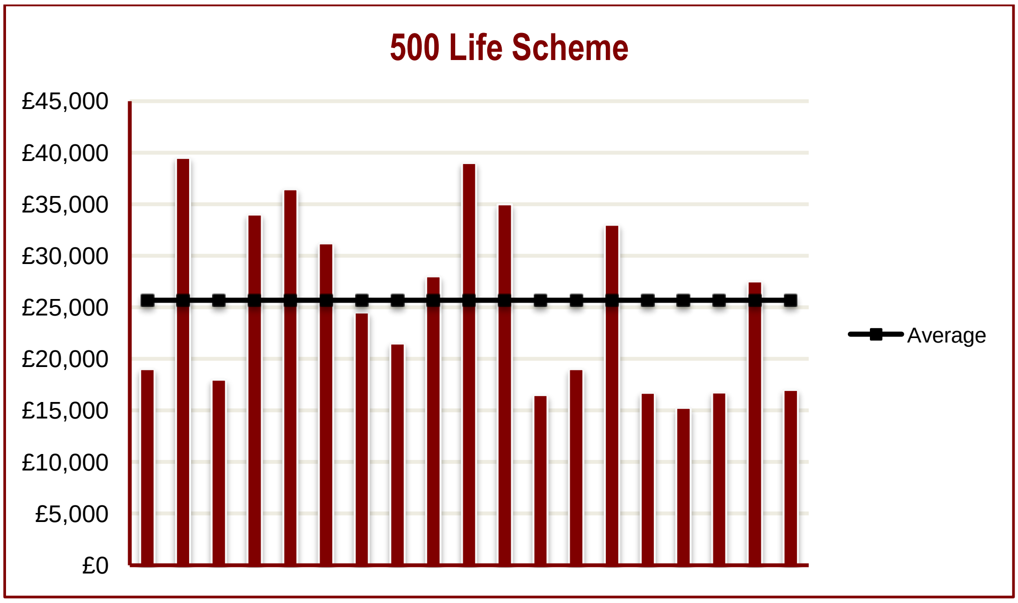
Graph 2a

At 200 lives, there is a difference of £26,300 between the lowest and the highest fee. Nine of the 19 firms charge more than the average. The highest fee is more than three times more expensive than the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 76% more than the average and the lowest fee is 43% less than the average.



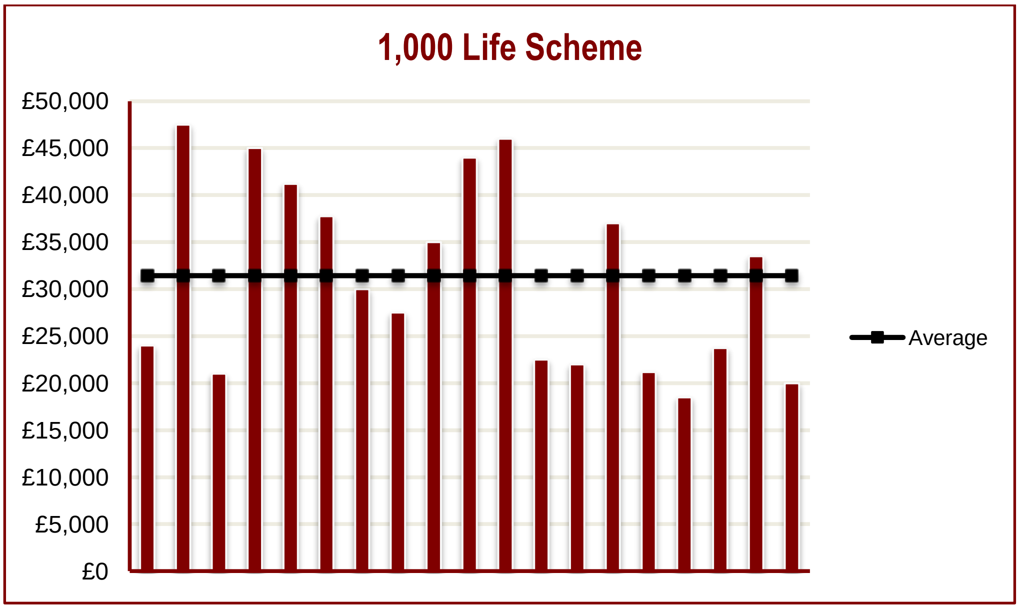
Graph 2b

In this scenario the difference between the lowest and the highest fee has decreased by £2,100. Again nine of the 19 firms charge more than the average. The highest charging firm is two and a half times more expensive than the lowest. When comparing the highest and lowest fees to the average cost, the highest fee is 54% more than the average and the lowest fee is 41% less than the average.



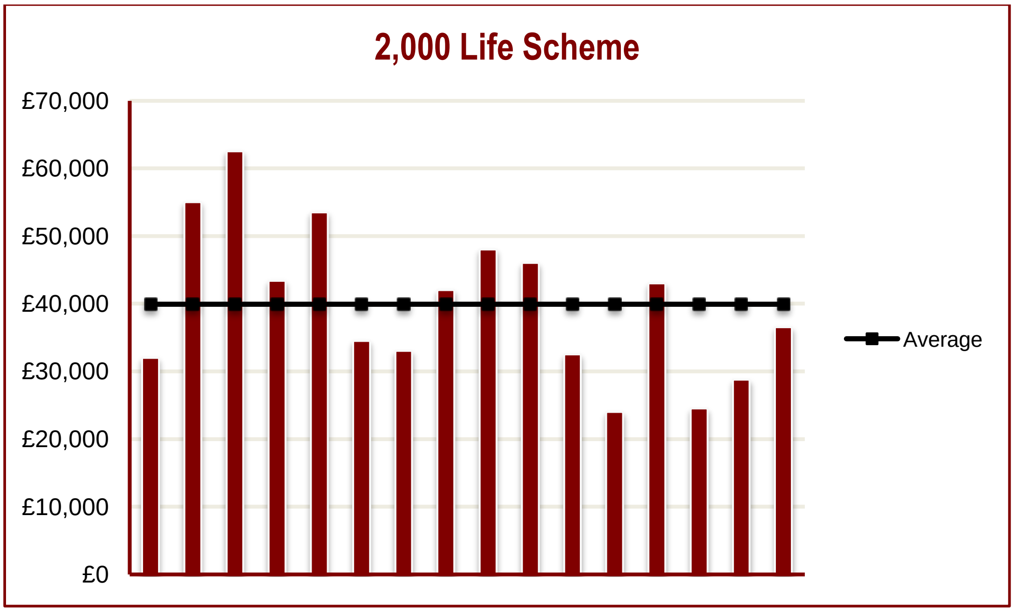
Graph 2c

At 1,000 lives, the cost difference between the highest and lowest fees has increased to £29,000 in comparison to a 500 life scheme. Nine firms remain above the average fee with 10 below. The highest charging firm is two and a half 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 41% less.



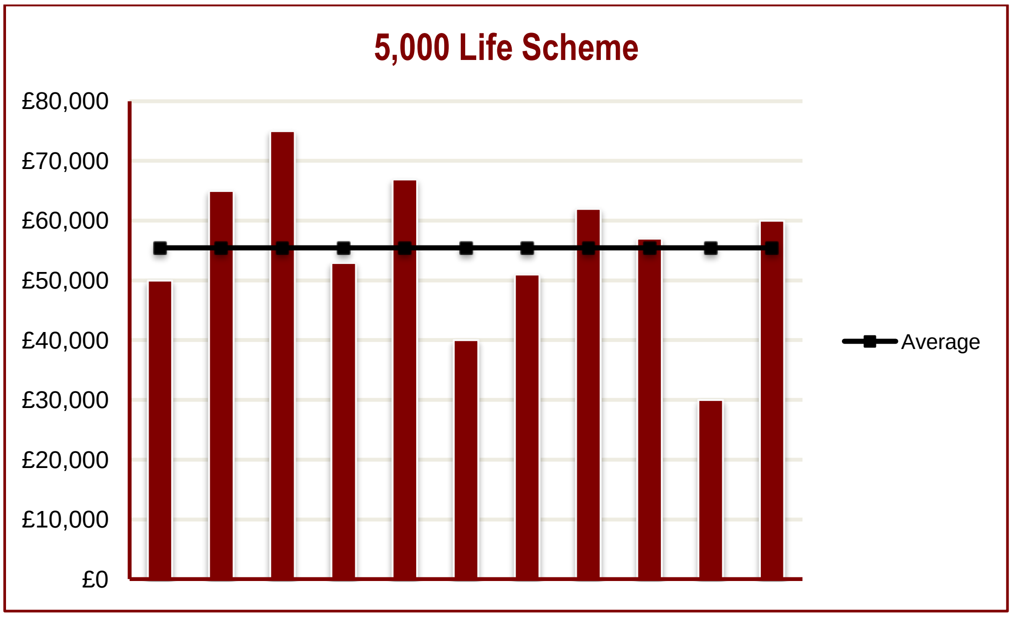
Graph 2d

The difference between the highest and lowest fee at 2,000 lives has increased by £9,500 to £38,500, this shows a 13% decrease from 2012 and but a 33% increase compared to 2011. Half of the firms are more expensive than the average fee and half are less. The most expensive firm charges two and a half times as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 57% more and the lowest fee is 40% less.



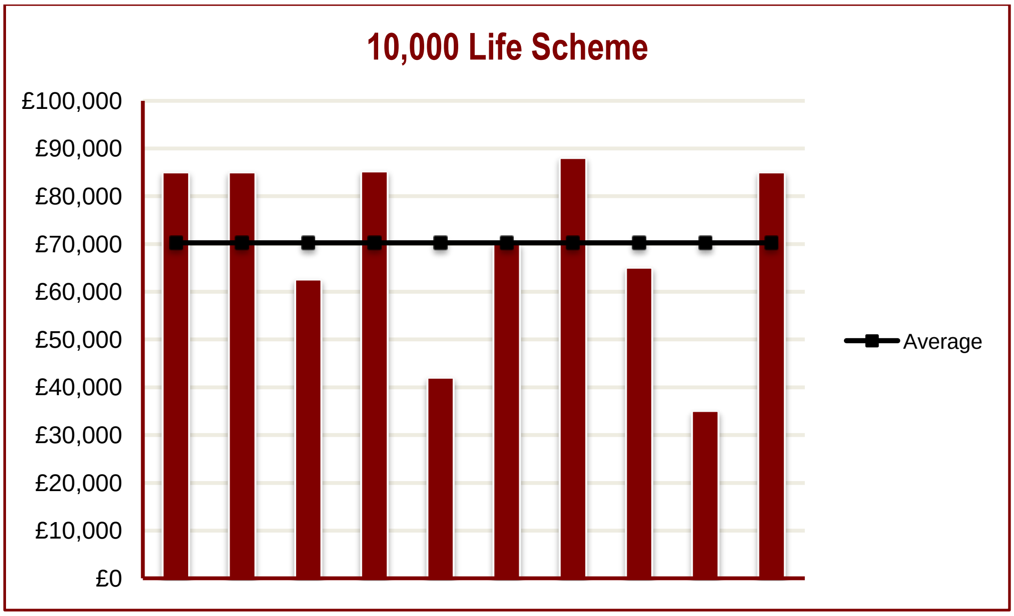
Graph 2e

At 5,000 lives, the range in cost between the highest and lowest has increased to £45,000; this represents an 8% increase compared to 2012 and a 15% reduction compared to 2011. Five firms charge less than the average and six charge more. The most expensive firm charges two and a half times as much as the lowest firm. The lowest firm charges 46% less than the average and the highest charges 35% more than the average.



Graph 2f

At the largest scheme size the range in cost between the highest and lowest has now increased to £53,000. The cost range is 4% more than the cost range in 2012 and 19% less than the cost range in 2011. An equal number of firms sit both above and below the average. The most expensive fee is two and a half times the cost of the lowest. When comparing the highest and lowest fees to the average cost, the highest fee is 25% more and the lowest fee is 50% less.

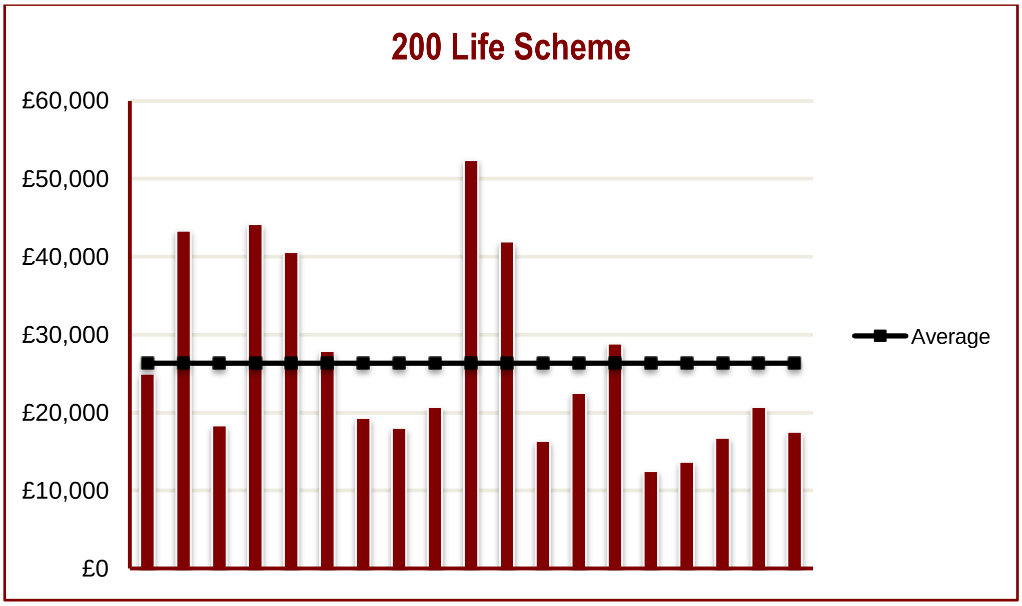


2.3 Year One Fee

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.

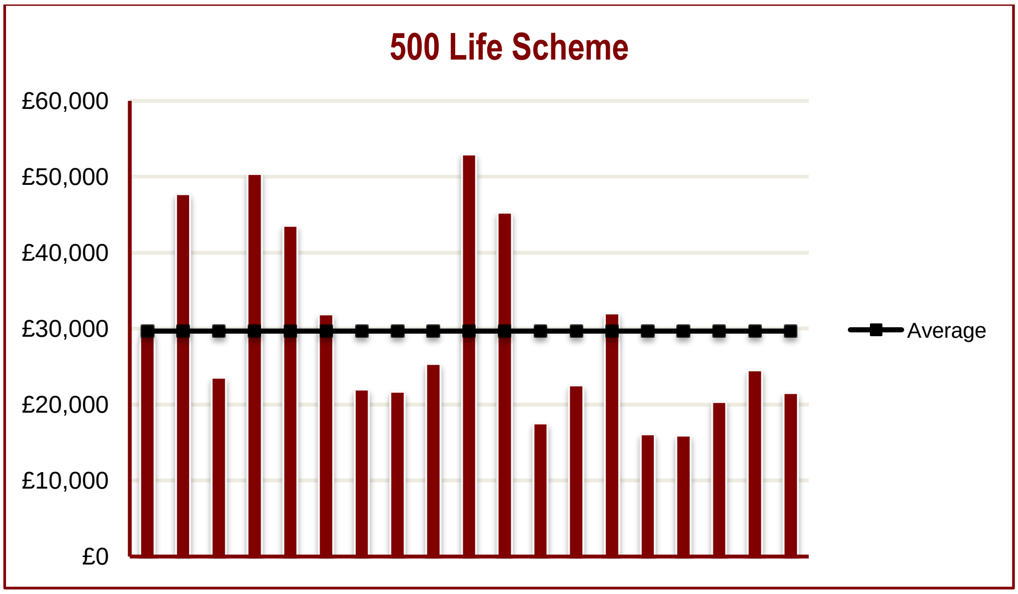
Graph 3a

In the smallest schemes there is a difference of £39,900 between the lowest and the highest fee. Seven of the firms charge more than the average and 12 firms charge less. The most expensive firm charges more than four times the 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 53% less than the average.



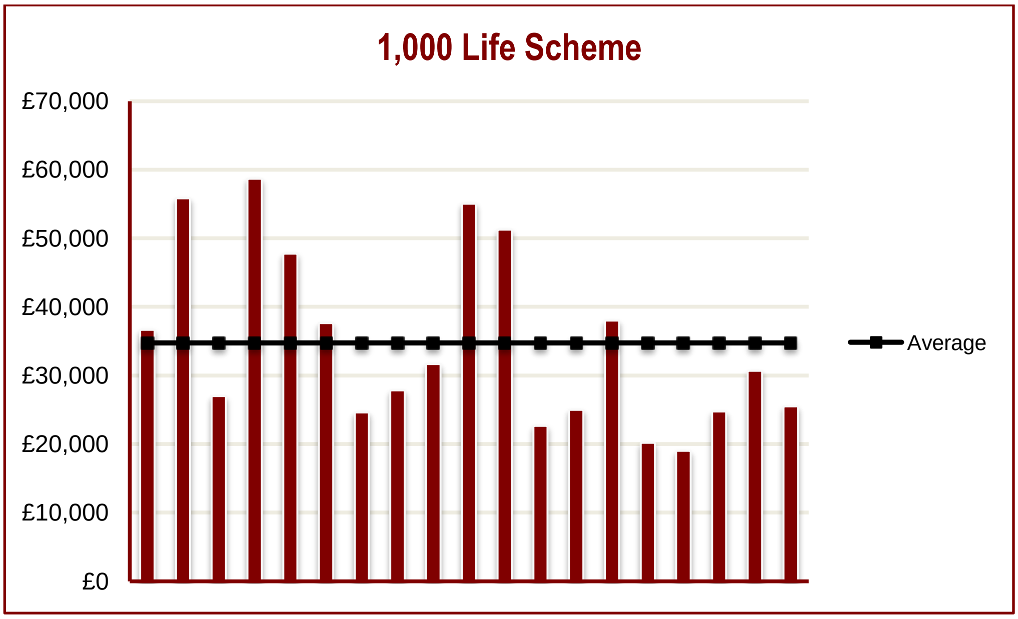
Graph 3b

In this scenario the difference between the lowest and the highest fee for a 500 life scheme has decreased by £2,900. Again seven of the firms charge more than the average and 12 charge firms less. The highest charging firm is nearly 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 79% greater than the average and the lowest 46% less.



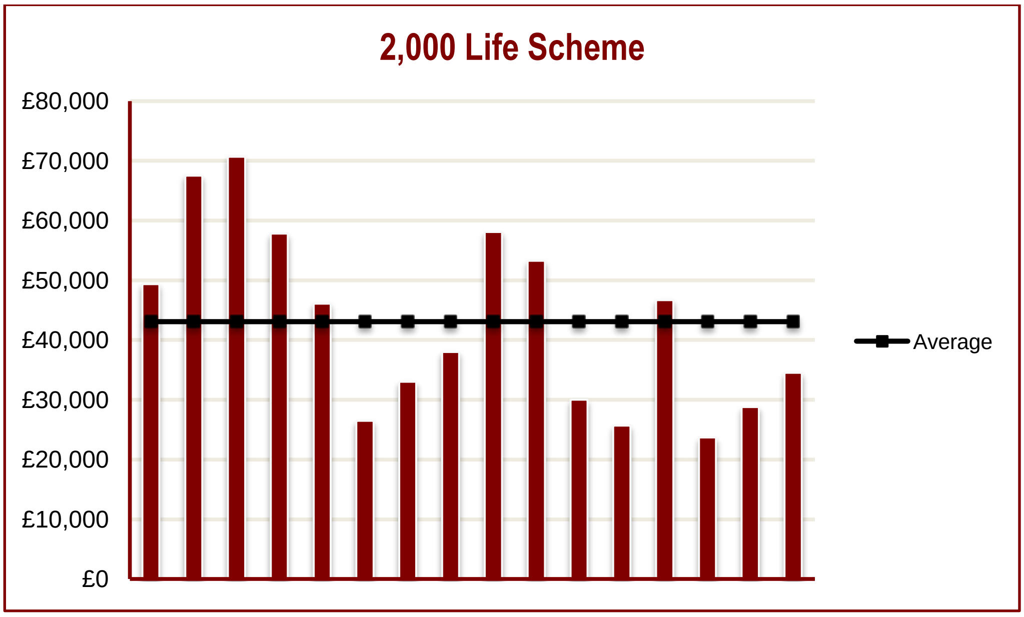
Graph 3c

At 1,000 lives the cost difference between the highest and lowest fees has increased to £39,700 in comparison to a 500 life scheme. Eight firms are more expensive than average and 11 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 69% more and the lowest fee 45% less.



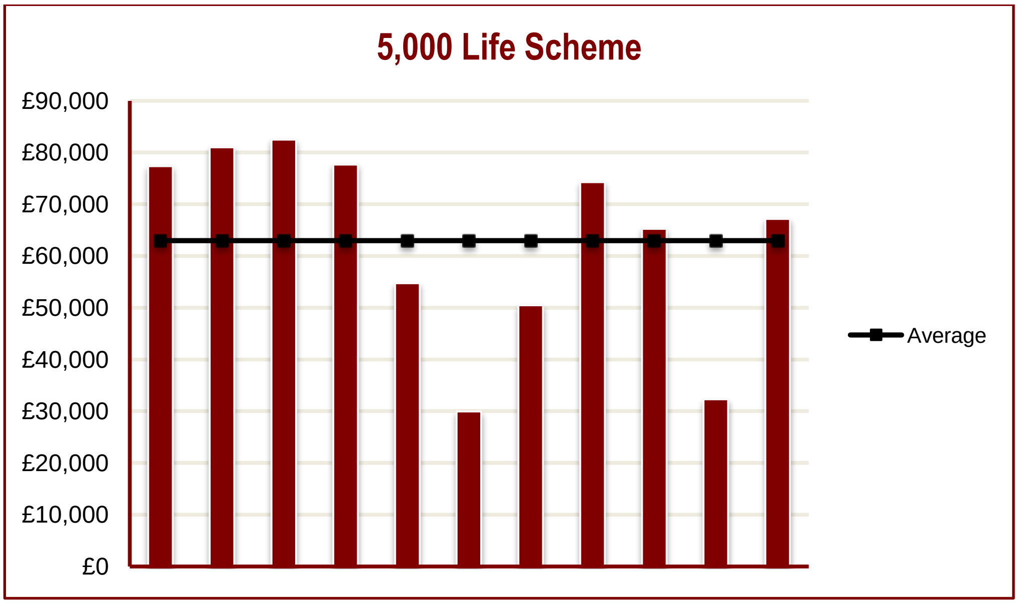
Graph 3d

At 2,000 lives the difference between the highest and lowest fee has increased to £47,000 this is a 7% increase compared to 2012 and a 27% increase on 2011. 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 64% more and the lowest is 45% less.



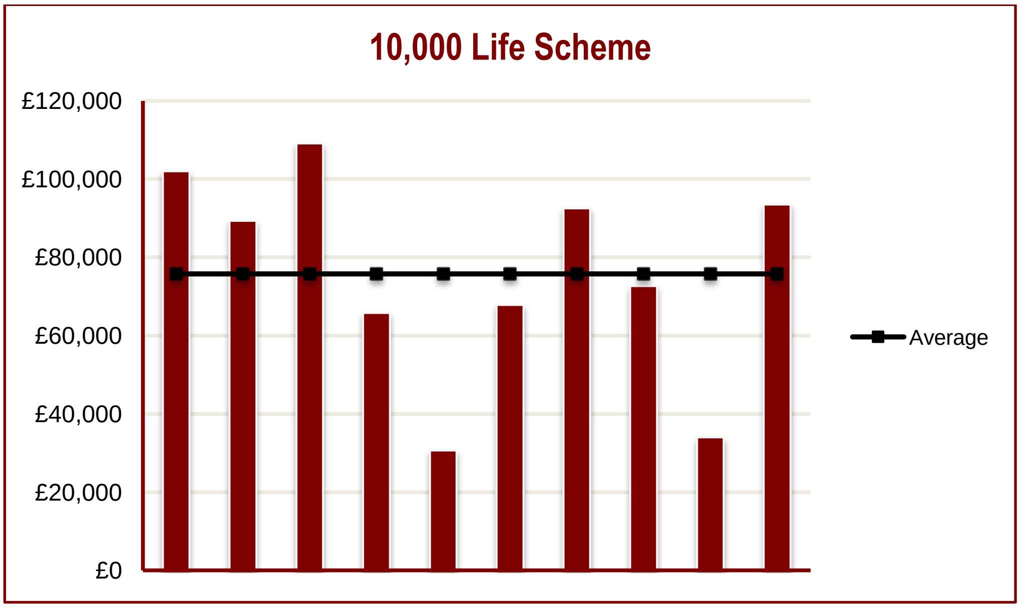
Graph 3e

At 5,000 lives the range in cost between the highest and lowest has increased by £5,500 to £52,500, this is 21% more than 2012 and 25% more than 2011. Interestingly the majority of firms charge more than the average with only four of the 11 charging less. The most expensive firm charges more than two and a half times as much as the lowest firm. When comparing the highest and lowest fees to the average cost, the highest fee is 31% more and the lowest is 52% less.



Graph 3f

At the largest scheme size, the range in cost between the highest and lowest has now significantly increased to £78,500, this is 19% more when compared to 2012 and 28% more when compared to 2011. The split between firms costing more or less than the average is equal. The highest charging firm is three and a half times more than the cost of the lowest. The highest firm charges 44% more than the average fee and the lowest firm charges 60% less.



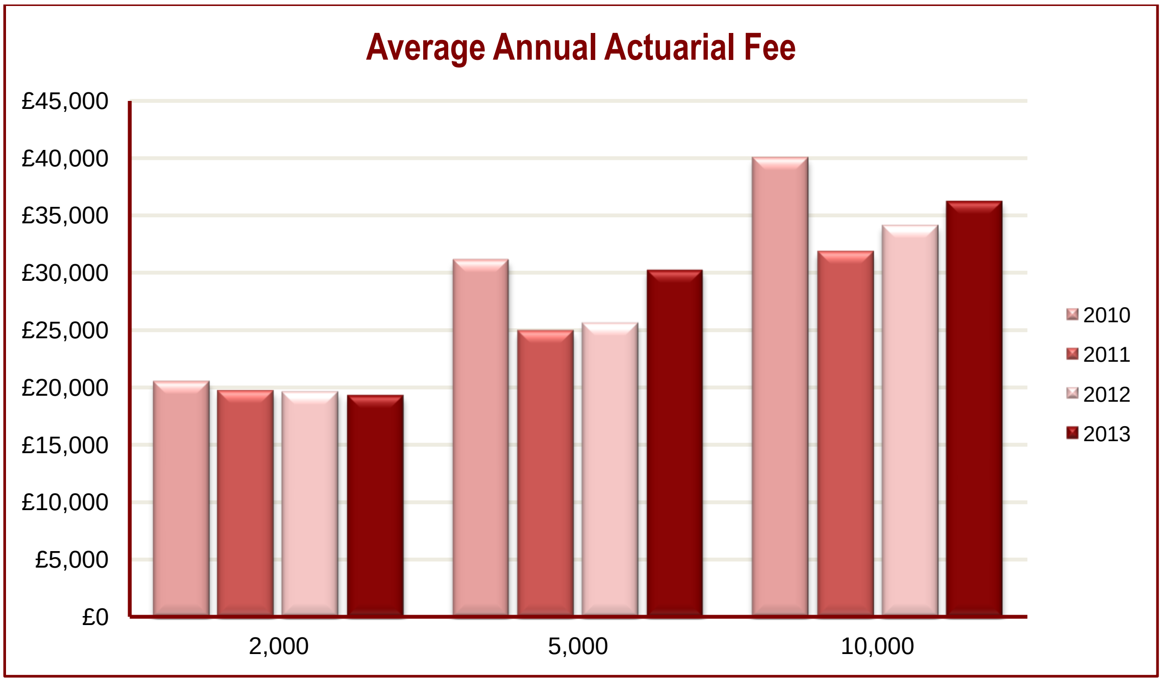
3.0 Year on Year Comparison

The table below shows the number of responses across all firms and within each scheme scenario for each survey year.

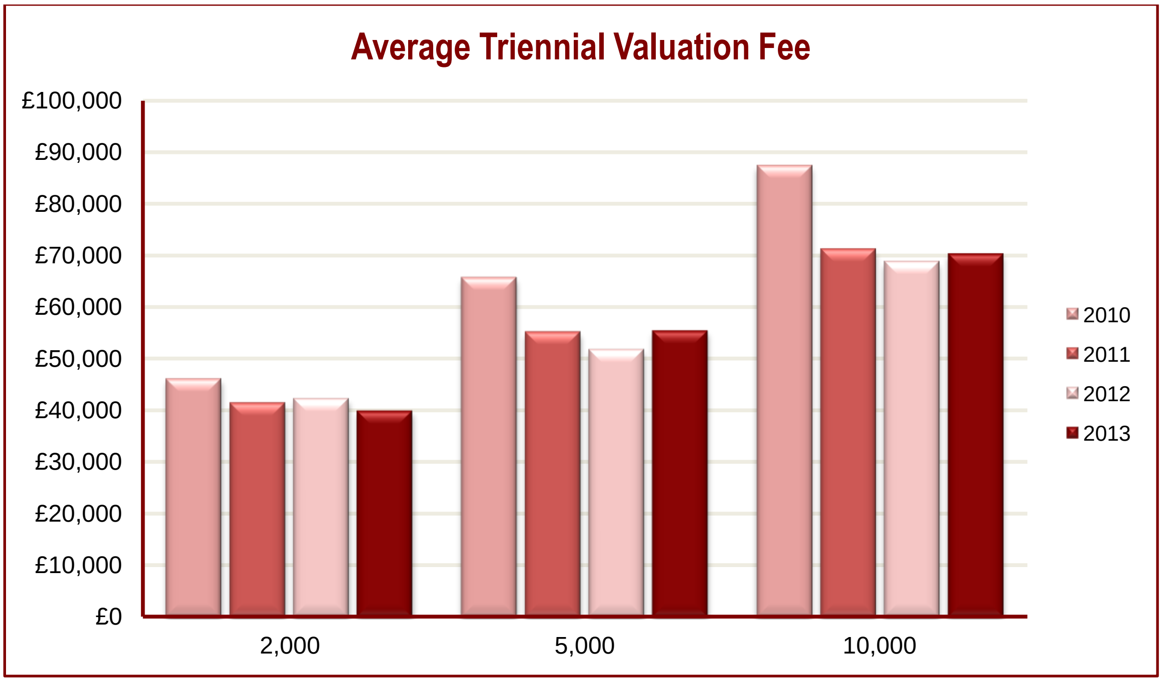
No. Firms	2010	2011	2012	2013
2,000	13	14	18	16
5,000	11	13	12	11
10,000	10	13	10	10

2010 is the starting point and baseline for comparing average fees over subsequent survey years. In the following graphs we focus on the three keys areas and compare average fees for 2,000, 5,000 and 10,000 life scheme sizes across the survey years.

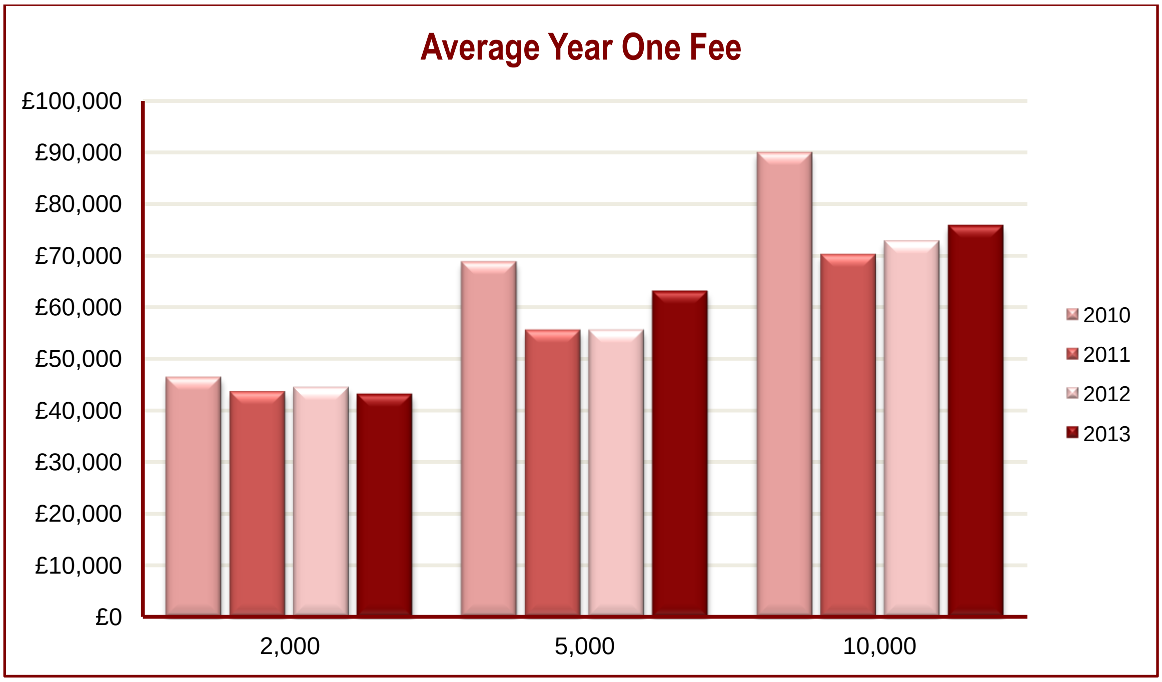
Looking at 2013, the fee decreased slightly when compared to 2011 and 2012 for a 2,000 life scheme. For a 5,000 life scheme there is a relatively significant increase over the same period. This makes it almost as expensive as 2010. The fee for a 10,000 life scheme also shows an increase when compared to 2011 and 2012, but has not yet reached the heights of 2010.



Triennial valuation fees decreased slightly for a 2,000 life scheme across all years with the exception of 2012. The 2013 fee for a 5,000 life scheme has increased compared to 2012 and 2011 but is nearly £10,000 less than the fee in 2010. When looking at a 10,000 life scheme, the 2013 fee increased compared to 2012 but decreased in comparison to both 2011 and 2010.



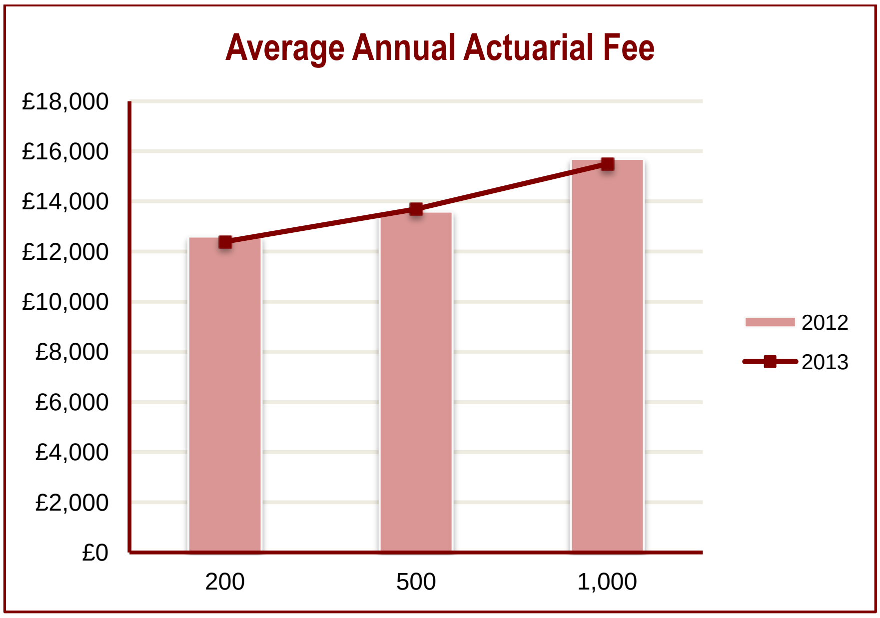
Year one fees have decreased in general for a 2,000 life scheme with the exception of 2012 which saw a small increase when compared to 2011. However the 2013 fee increased for both 5,000 and 10,000 life schemes. Comparing 2010 to 2013, the fee difference for a 10,000 life scheme is £14,100, this difference decreases to £5,700 for a 5,000 life scheme.



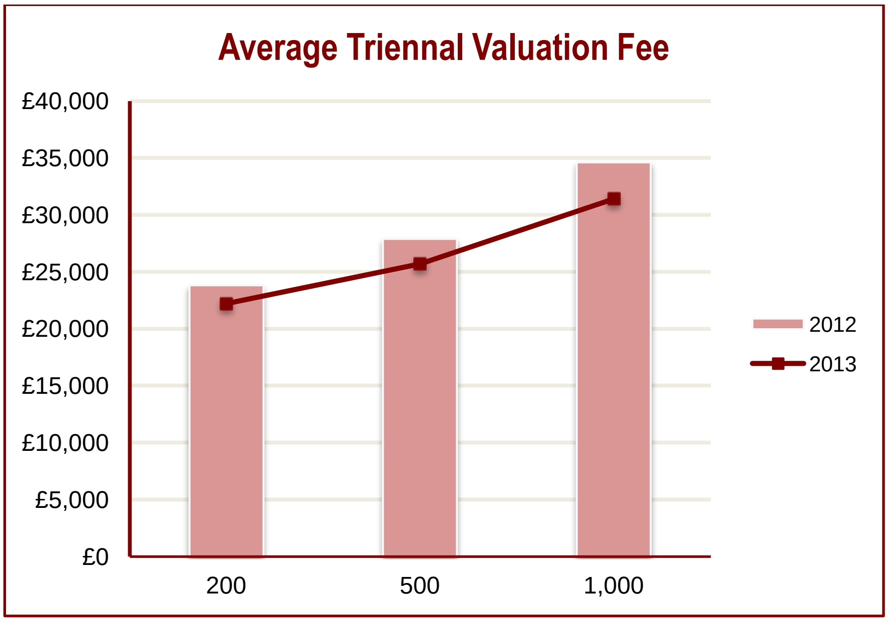
Small Schemes

In 2012 we introduced smaller sized schemes – 200, 500 and 1,000. The graphs below demonstrate how the average fees for these scheme sizes have changed in the last year.

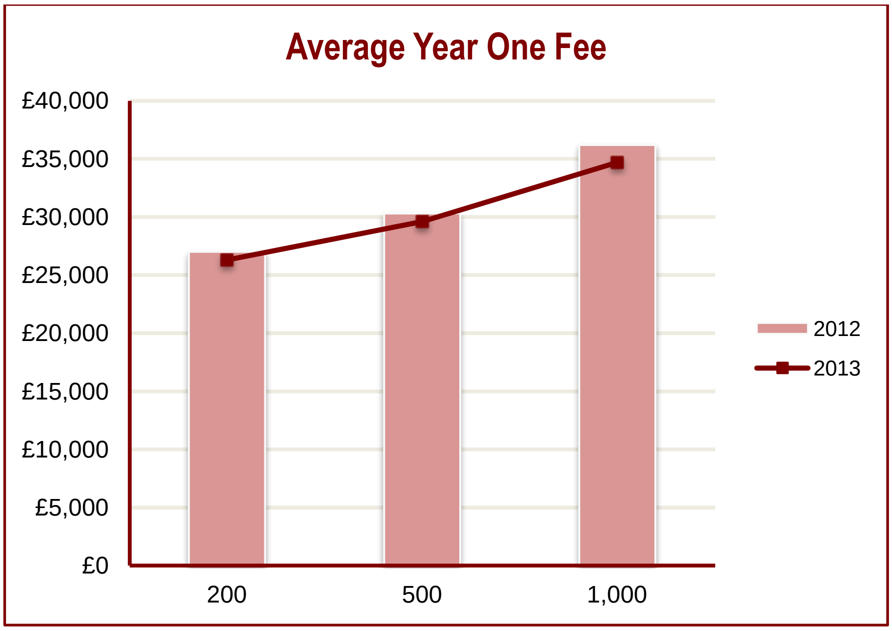
Looking at 2013, the annual actuarial fee decreased slightly in comparison to 2012 for a 200 life scheme. For a 500 life scheme the fee increased by £100 compared to 2012. The fee for a 1,000 life scheme has decreased slightly compared to 2012.



Triennial valuation fees decreased slightly for all scheme sizes. The biggest difference was for a 1,000 life scheme where the fee decreased by £3,200 in 2013 compared to 2012.

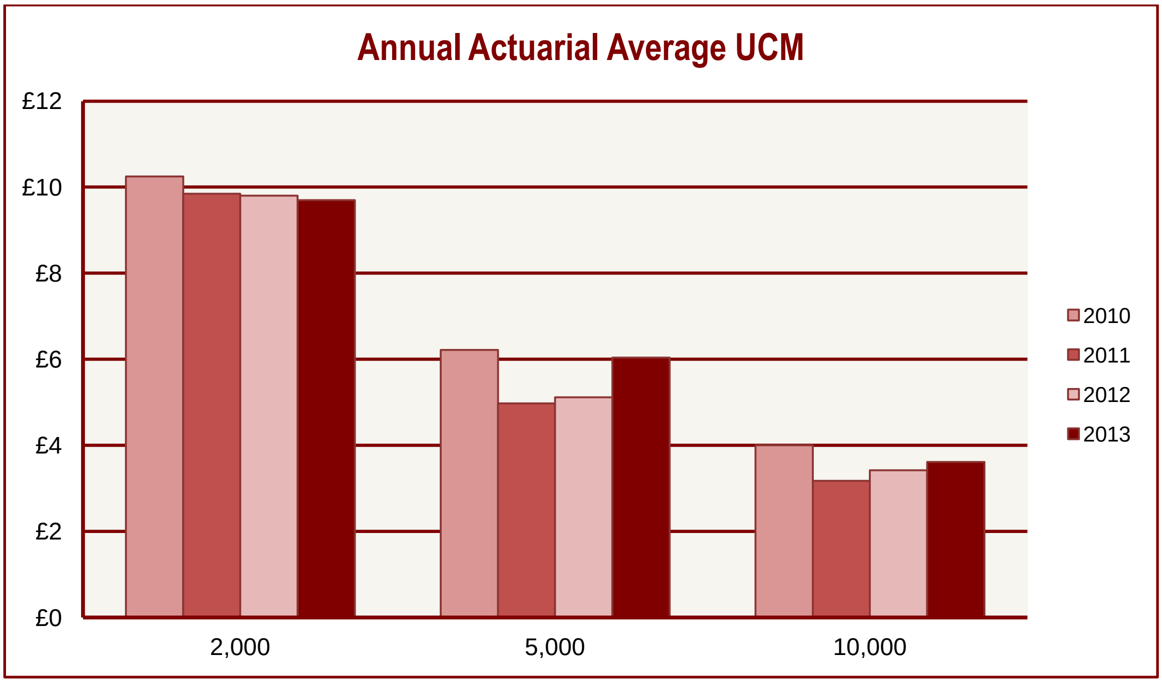


Year one fees have also decreased slightly for all scheme sizes. The biggest difference was for a 1,000 life scheme where the fee decreased by £1,500 in 2013 compared to 2012.



4.0 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 schemes have the advantage.



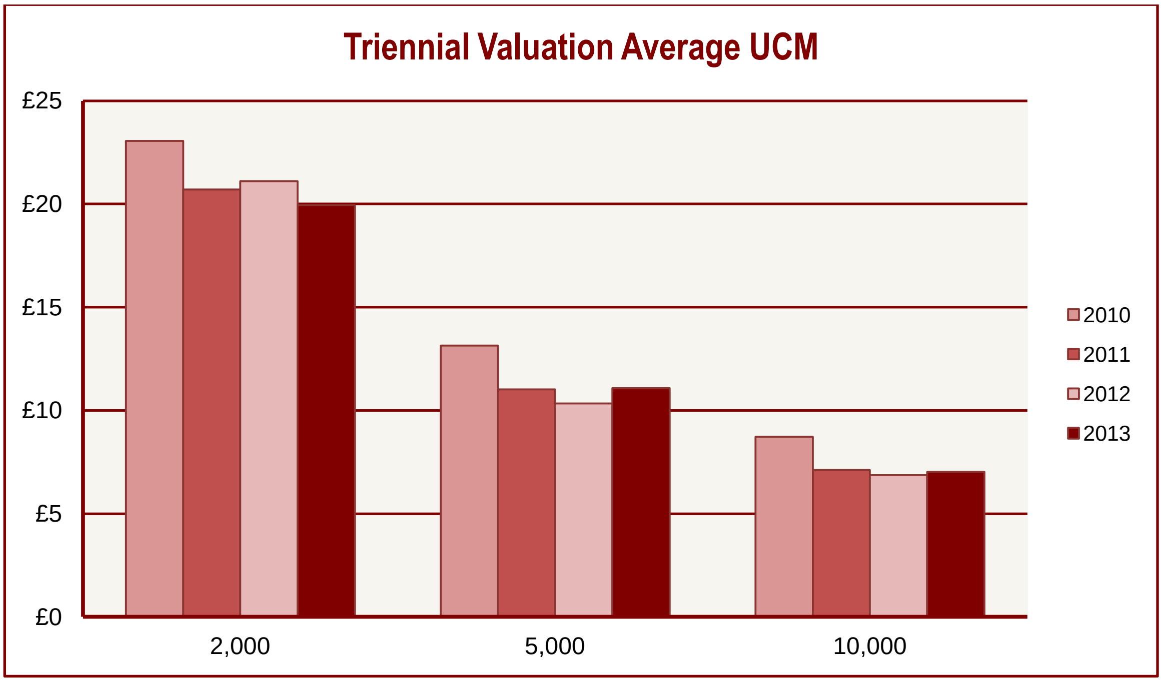
In 2013 the average **annual actuarial UCM** for a 2,000 life scheme is **168%** higher than for a 10,000 life scheme and a 5,000 life scheme is **67%** higher than a 10,000 life scheme.

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 numbers in scheme

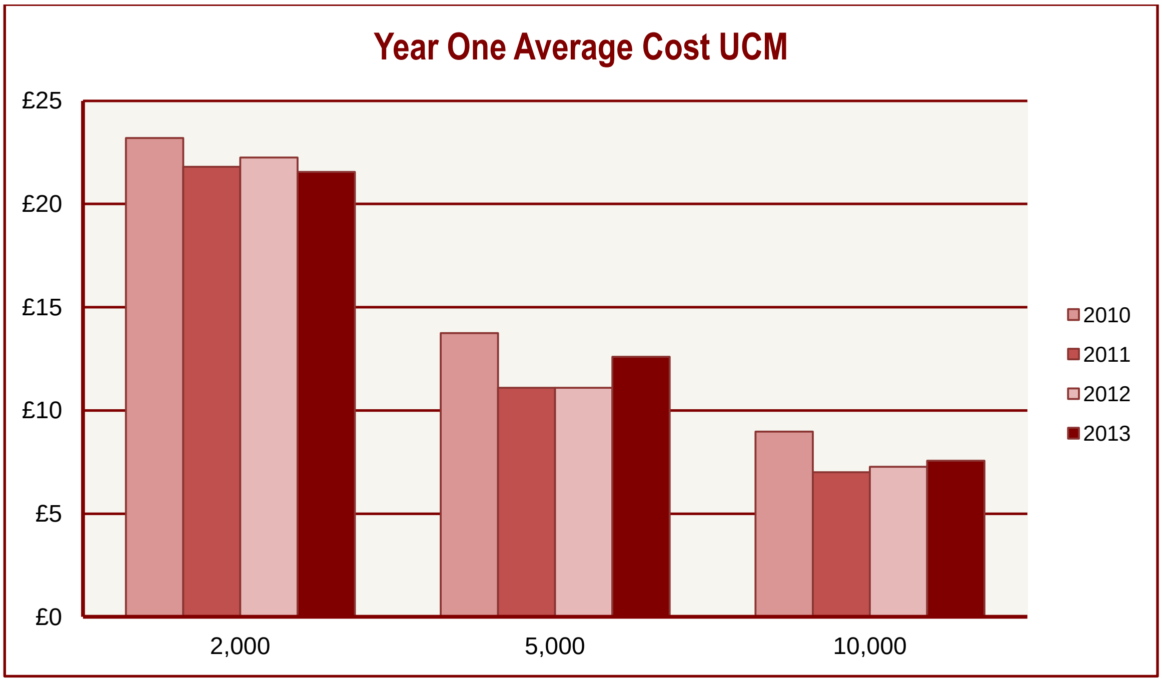


In 2013 the average **triennial actuarial UCM** for a 2,000 life scheme is **184%** higher than for a 10,000 life scheme and a 5,000 life scheme is **58%** higher than a 10,000 life scheme.

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 2013 the average year one UCM for a 2,000 life scheme is **185%** higher than for a 10,000 life scheme and a 5,000 life scheme is **66%** higher than a 10,000 life scheme.

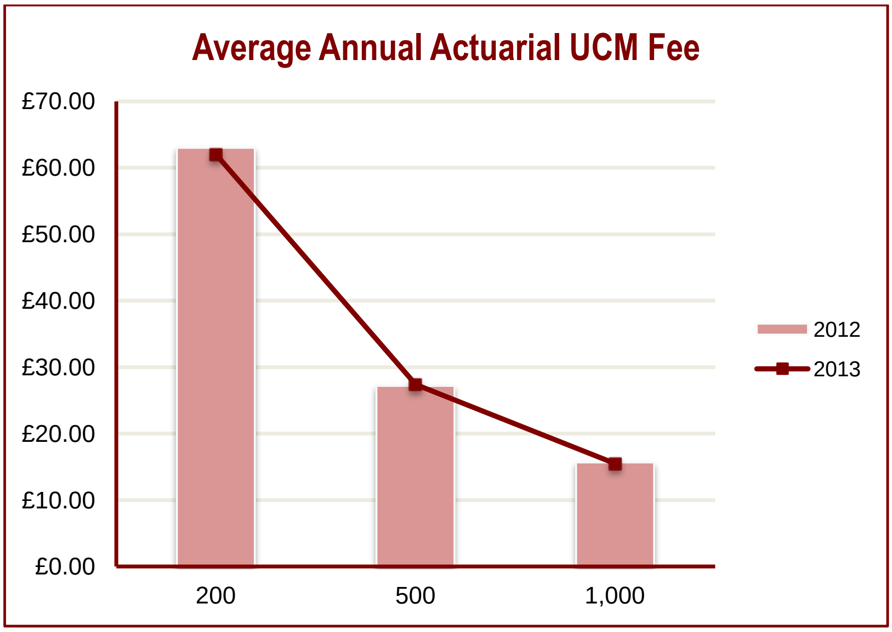
In 2012 the average year one UCM for a 2,000 life scheme is **206%** higher than a 10,000 life scheme, a 5,000 life scheme is **53%** higher than a 10,000 life scheme

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.

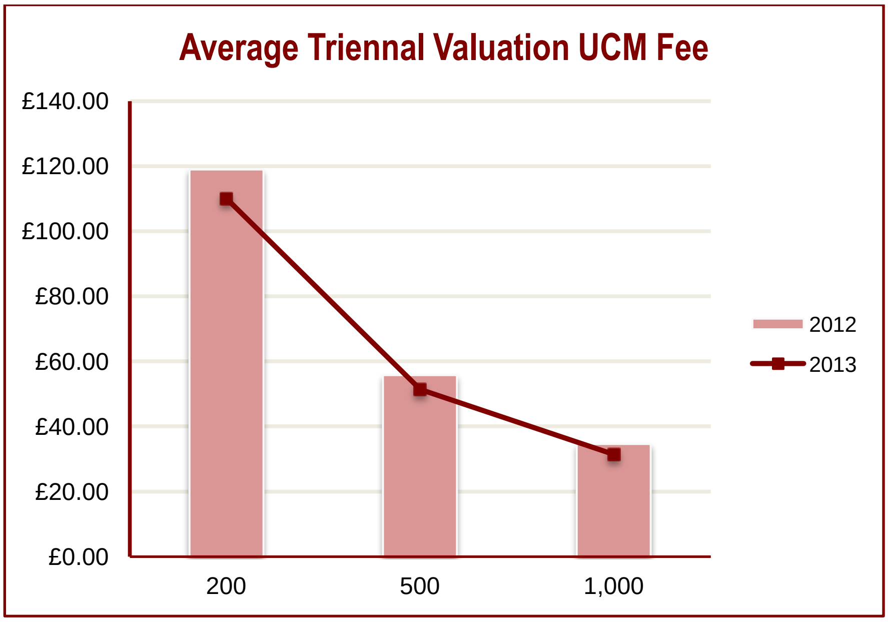
In general a 2,000 life scheme will pay nearly 3 times more than a 10,000 life scheme on a per member basis, compared to a 5,000 life scheme which will pay up to two thirds more. Overall there is a significant cost differential across all years between the large and small schemes.

Small Schemes



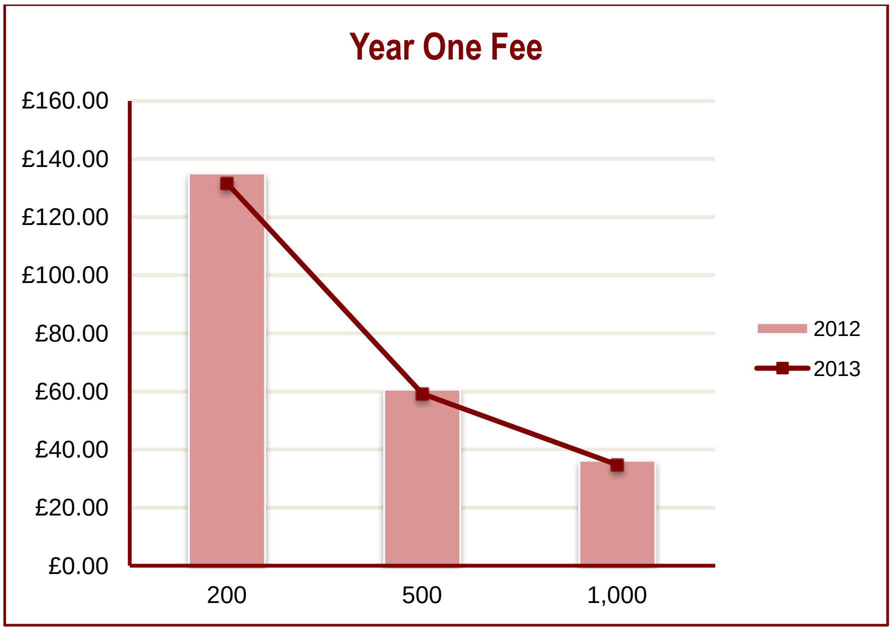
In 2013 the average UCM for a 200 life scheme is **300%** higher than for a 1,000 life scheme and a 500 life scheme is **77%** higher than a 10,000 life scheme.

The average annual actuarial UCM for the smaller schemes has changed little year on year. A 200 life scheme UCM is £1 less in 2013, a 500 life scheme UCM is only £0.20 more and a 1,000 life scheme UCM is only £0.20 less.



In 2013 the average triennial actuarial UCM for a 200 life scheme is **250%** higher than for a 1,000 life scheme and a 500 life scheme is **64%** higher than a 1,000 life scheme.

The 2013 average triennial valuation UCM for the smaller schemes has seen a small reduction on the 2012 figures. With a 200 life scheme UCM £9 less, a 500 life scheme UCM £4.40 less and a 1,000 life scheme UCM is £3.20 less.



In 2013 the average year one actuarial UCM for a 200 life scheme is **279%** higher than for a 1,000 life scheme and a 500 life scheme is **71%** higher than a 1,000 life scheme.

The 2013 average year one actuarial UCM for the smaller schemes has seen a small reduction on the 2012 figures. A 200 life scheme UCM is £3.50 less, a 500 life scheme UCM is £1.40 less and a 1,000 life scheme UCM is £1.50 less.

5.0 Proportion of Core and Non 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. A list of these tasks can be found in the Appendix.

Annual Tasks

For all scheme sizes the majority of firms offer 100% of the core tasks. For a 200, to a 2,000 life scheme a third of firms offer 50-88% of these tasks. One firm only offers 50% of the tasks for a 5,000 and 10,000 life scheme.

Triennial Tasks

It is pleasing to see all firms across all scheme sizes offer 100% of these tasks.

Ad-hoc Tasks

All but one of the firms offered 100% of these tasks across all scheme sizes.

Periodic Tasks

All firms offer 100% of the periodic tasks across all scheme sizes.

Valuation Tasks

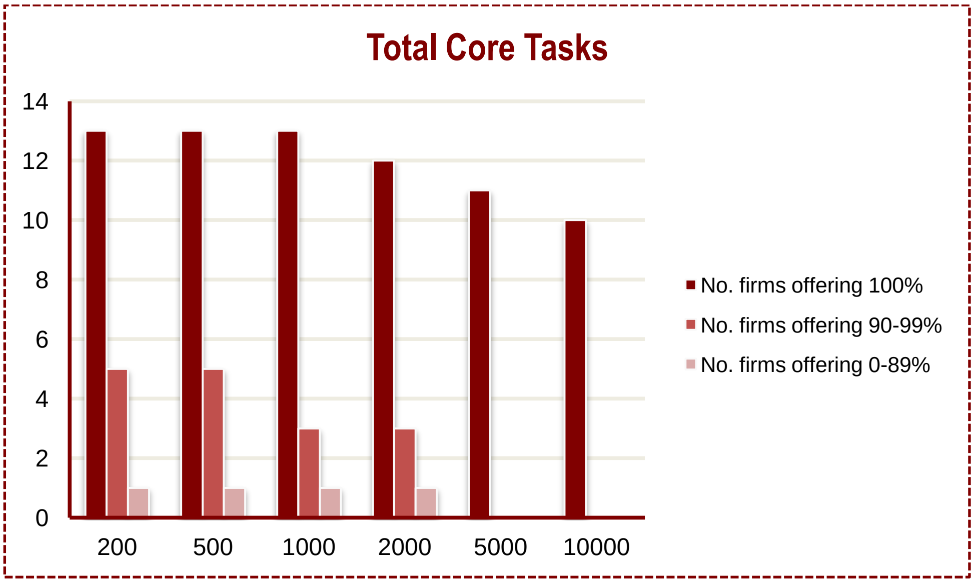
It is pleasing to see the majority of firms offer 100% of these tasks across all scheme sizes. 16% of firms offer 78-89% of these tasks for a 200, 500 and 1,000 life scheme. Two firms provide 89% of the core tasks for a 2,000 life scheme.

Corporate Tasks

All firms offer 100% of the corporate tasks.

Total Core Tasks

The graph below how many of the 23 core tasks firms included within their fees. The majority of schemes offer 100% of tasks across all scheme sizes and this is very pleasing.



Non-Core

We asked firms to state whether they included 12 tasks normally considered 'non-core' within their core fees, this list can be found in the Appendix. We asked firms to let us know how these services are charged if they do not form part of the core service package. The majority of firms stated these tasks would be provided on a time cost basis and the time cost fee ranged from £80 - £480 per hour.

Task one asked firms how they would cost an ad-hoc valuation. Nine firms would provide this for an additional fixed fee and the cost for this ranged from £1,000 up to £50,000. 53% of firms stated this would be provided on a time cost basis.

Task two asked how 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 would be charged. One firm included this within their core fee, five firms said it would be an additional fixed fee ranging from £1,000 - £10,000. 68% of firms stated this would be provided on a time cost basis.

Task three asked about schemes requiring advice relating to material changes in staffing levels and reporting on financial implications for members and benefit arrangements. Five firms would charge an additional fixed fee ranging from £1,000 - £10,000 and 74% of firms would charge on a time cost basis.

Task four asked for calculations and advice arising in connection with changes in the contracting out status of the scheme or terms of contracting out. One firm would include this within their fixed fee, five firms stated it would be an additional fixed fee ranging from £2,000 - £5,000. 68% of firms would charge for this on a time cost basis.

Task five asked for stance on the provision of certificates other than those provided under the services e.g. Section 67 Certificates. Three firms said it would be provided for an additional fixed fee, one firm included this within the core fee and 79% of firms stated this would be provided on a time cost basis.

Task six asked firms how they would charge for actuarial input/comment in relation to Statement of Investment Principles (SIP). Interestingly five firms stated this would be included within their fixed fee, five firms would charge an additional fixed fee ranging from £500 - £3,000. 47% of firms would charge for this on a time cost basis.

Task seven asked how firms would charge for liaising with trustees on Scheme administration matters as and when required. 68% of firms stated this would be provided on a time a time cost basis, five firms included this within their fixed fee and one firm would charge an additional fixed fee.

Task eight asked for stance on involvement in discussions with TPR in relation to funding plans, including particular Recovery Plans, SFS and calculation of Technical Provisions. 84% of firms would charge on a time cost basis and three firms include this within their core fee.

Task nine asked how firms would charge for 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. Six firms included this within their core fee and one firm would charge an additional fixed fee. 63% of firms would charge on time cost basis for this task.

Task ten asked about times when a scheme requires detailed advice in relation to the impact on funding and solvency levels of TVs and the provision of TVs where schemes are not fully funded. The majority of firms would charge an additional fixed fee and the cost of this ranged from £1,000 - £10,000. 36% of firms stated this would be provided on a time cost basis and one firm would include this within their core fee.

Task eleven asked about costing for detailed advice on alternative bases for the calculation of actuarial factors. Eight firms would charge on a time costs basis, six firms would charge an additional fixed fee ranging from £1,000 - £3,000 and 26% of firms would include this within their core fee.

The final task, task twelve asked how firms would charge for advising on terms of any bulk transfers to be paid/received. 84% of firms stated this would be provided on a time cost basis and three firms would charge an additional fixed fee ranging from £5,000 - £20,000.

6.0 Industry Views

In order to provide more context to the survey we felt it was appropriate to ask the participating firms for their views on a range of topics. The responses ranged from general consensus to totally opposing views. Perhaps this demonstrates the current state of market flux, in terms of developing services and technology to meet the challenges posed by the economy and each latest round of legislative requirements.

1. How has the requirements on schemes to comply with statutory funding obligations and reporting impacted on the role of the Scheme Actuary - are statutory requirements being met 'out of the box' *(homogenous use of technology)?*

a. How does it change the role of actuaries?

From the responses received we believe there is a growing feeling amongst Scheme Actuaries that there is a tick box commodity aspect to their role – but then funding pressures require a value added service where they must get creative for their schemes.

Some comments made include:

The role of the appointed scheme actuary (with all the technical & compliance skills) and that of the consulting actuary (with the technical and communications skills) is becoming more distinct.

The changes have created a sharp divide between actuaries who offer a compliance focused service and those who can offer additional value to clients.

A significant amount of the Scheme Actuary's work is now compliance based, which has meant that communicating the results and potential risks the client is exposed to has become a more significant part of the role.

An opposing view was:

No real change in the role of the Scheme Actuary.

b. What role do you see technology playing?

Here there were split views. It was generally agreed that technology can help to deliver the number crunching, but also that it cannot take all the pain of the increased work involved as schemes' needs become less standardised.

Technology is a tool and can deliver information quickly and efficiently but should be used with caution and should not be relied upon without professional input as systems can become corrupted.

Modelling software is becoming an essential part of the actuary's tool kit. Automated report generators are needed to capture the actuarial advice in writing.

Technological advances have already made the delivery of these services very efficient and further efficiency gains are likely to be minimal.

Technology plays a very large part. An inefficient system means that an actuarial firm could not survive in this market.

2. What is the biggest influence on costs?

Several factors were put forward. As expected size and complexity of a scheme was seen as a significant influence, but most felt it was competitive pressures keeping costs under control.

Competitive pressure, but with the underlying requirement that business *(the actuarial firm)* must be profitable.

Complexity of the scheme and size (as the size of the scheme determines the level of risk and responsibility).

Amount of work involved and competition.

As each client is different, we work with them to understand precisely what they want taking into account the costs of providing each individual service. If the Trustees want a very proactive consultancy service with monthly personalised updates, details of each individual calculation and quarterly funding updates we can provide a cost for each and allow them to decide whether or not it represents value for money for them. However, we note that our competitors are generally quoting for the most basic of services so we have had to move with this trend. We do, however, prefer to explain that additional services are more or less always required (i.e. be honest) rather than try to get business on an artificially low cost quote. Ultimately, competitors' costs are perhaps the biggest influence in setting the fee for core services.

3. Should there be a formal separation between employer and trustee actuarial advice?

There was a general consensus that it was not necessary for the employer and trustees to split or have separate advice for most things such as provision of information and calculation services, but separation was definitely required where there were areas of unmanageable conflict de-risking.

Not necessarily. Obviously necessary in some circumstances but most of the time just leads to unnecessary duplication of effort and unhelpful conflict.

Not necessarily. Depends on whether or not the conflicts can be adequately managed. One firm carrying out both roles can reduce the cost without compromising on quality of advice to both parties.

No - it is not necessary. Scheme Actuaries are required to have a conflicts management plan in place and this can (if all parties agree) allow for the Scheme Actuary to give non contentious advice to the sponsoring Employer. This can be efficient and cost effective. However it is incumbent upon the Scheme Actuary to identify conflict situations and where this occurs then clearly a different Actuary should act - preferably from another firm (not from within the same firm where influence can still prevent the advice from being wholly independent).

But not all agreed:

Yes for "advice" but not necessarily for calculation services e.g. FRS17. Chinese walls may prevent information being inappropriately shared but the commercial imperative to keep hold of business cannot be denied as a potential factor in compromising an adviser.

4. What proposed legislation/regulation causes concern in terms of cost to employer, difficulty to implement, detrimental to members and law of unintended consequences?

There was a general consensus over concerns that Auto Enrolment, GMP equalisation and Solvency II will increase costs for employers.

That GMP equalisation and cessation of contracting out is going to be difficult to implement for all.

That a reduction in Lifetime Allowance (LTA) and Annual Allowance (AA) is seen as being detrimental to members.

And that GMP equalisation and LTA/AA issues will have unintended knock on effects to all.

5. What proposed legislation/regulation is positive in terms of reducing cost to employer, reducing risk, improving members' outcomes and little or no consequences?

The positive responses centred on proposed changes in terms of defined ambition, changes to disclosures and pot follows members. However there were some comments which were very negative and basically saying nothing will be good.

None.

None - in my experience all legislation has unintended consequences (just think back to the change in the statutory measure of inflation from RPI to CPI).

6. The evolution/growth of DC – how will the role of the actuary change?

Most of the responses were prefaced with the fact that there is still a lot of DB around which perhaps says a lot! Most felt actuaries would be required to provide more on the investment advice side as opposed to valuing liabilities.

Still years and years of life left in DB schemes albeit with a long tail to eventual death. Would like to see actuaries become more involved with member advice in DC schemes i.e. how much should I pay to achieve a pension of x% of final salary and how do I manage the risks? Scope for actuary to lead on Collective DC (CDC) schemes.

Actuaries will continue the move towards advising on and managing investment strategies rather than valuing liabilities.

Actuarial profession will move more and more into insurance and a rapid decline in actuarial involvement in pensions, limited to the de-risking of legacy DB arrangements.

DB is still around for a long time - so not much DC work will become automated by IT within insurance industry but the individual cannot access actuarial advice at a reasonable price.

7. Do actuaries have a role within DC governance?

Unsurprisingly most providers felt that actuaries did have a role to play.

Yes in the same way as they do for DB schemes but with more of a leaning towards member outcomes. Actuaries can lead on CDC both during the accumulation and decumulation phases.

Only in relation to points made in question 6. On the other hand, actuaries tend to get involved in all things pension so no doubt their involvement with DC will widen as DB declines.

Yes but as only one of a number of professionals.

Yes but it is questionable whether schemes will actually pay for actuarial advice regarding their DC schemes.

Some in helping Trustees/Employer understand what really influences pension outcomes.

Too expensive.

Yes, the skill set actuaries bring to the table can help raise the bar when it comes to understanding the various risks associated with a pension scheme. Once the risks are understood it is then possible to manage, mitigate or control them within the governance framework.

8 How do you see Defined Ambition evolving in the UK market?

Interestingly the responses ranged from total damp squid and only relevant to the public sector, to more positive. The general consensus is that it is too little too late. ***Please note these responses were collected prior to the recent consultation paper from the Government on DA.***

We believe it will evolve as a kind of DB lite or DC+ (i.e. with the employer bearing some of the risks) and with pooling across the membership. We believe this is about a re-spreading of the risks and with members taking more accountability for the outcomes. Will require member education to equip them for this.

Whilst in principle, we are very much behind defined ambition (particularly if it can offer the benefits of risk sharing and retaining investment risk after retirement that are part and parcel of DB schemes). It's hard to see companies getting behind any scheme that the Government can scupper with new legislation. Unless this can be addressed we see no future in DA.

We don't, certainly as regards "DB minus". There might be more interest on "DC plus", but major concern is whether any smoothing would bring a scheme within the scope of the DB legislative regime as a result of the Government's revised definition of "money purchase benefits" following the Supreme Court's ruling in the Houldsworth v Bridge (Imperial Home Decor) case.

I think for a significant number of smaller employers DC is already being used for their current employees and having suffered from the roller coaster rides of DB there is no real appetite for DA. For larger employers or industry wide schemes then DA could give them an opportunity to differentiate themselves from competitors and if providing affordable pensions within a sustainable framework is a key objective then DA could be the answer.

Great idea (particularly Collective DC) but too late and companies are bound to shy away from anything that smells of DB.

If it secures government backing and appropriate legislation then it can evolve but that is a big "if". We don't see it evolving at all given the current legislative backdrop.

Non-starter.

Damp Squib!

Public sector only.

9. How do you see the role of scheme actuary and broader actuarial services changing under DA?

Responses were dependent upon whether the solution is DC plus or DB lite.

Unless a scheme is pure DC then an actuary will need to be involved to assess the liabilities that require to be funded and to advise the Trustees regarding the risks to the Scheme. Clearly the scope of the Scheme design under DA will dictate how much involvement the Scheme Actuary will have.

See the quantification of risk being important here i.e. quantifying all the risks and modelling how they could be shared. In CDC schemes the actuary may have a role similar to a life actuary. DC with guaranteed returns will clearly require actuarial advice

We don't see real change

Under DA the actuary's role will be expanded beyond the current compliance focused regime and will involve significant advice around the benefit structure and granting of any discretionary benefits so as to avoid cross subsidies between generations and different cohorts of members. Reserving for future shocks to the pension system will need to be built in to ensure the structure is robust, and the Scheme Actuary will be the key person in identifying and explaining the management and reserving for future risks.

If it were to take off then a limited number of actuaries would have a job as quasi with-profits pension actuaries helping to sort out a fair method of generational cross-subsidies.

Not really sure at this stage

7.0 Summary

In 2012 we raised some questions in our findings:

- **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 valuations, and will we see figures increase again across the board, with a subsequent fall in 2014?**

We have seen an overall increase in fees for the larger scheme sizes this year and perhaps this is a result of 2013 being a valuation year. However fees have not yet reached the heights of 2010, this may be a reflection of the increased pressure providers are feeling to be competitive. In contrast there does appear to be increasing competition for smaller schemes and costs have generally decreased in the past year.

We can answer the final question next year when it will be interesting to see if fees carry on the decreasing trend witnessed after the popular valuation year of 2010.

Appendix A

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
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 required mandatory document 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 trustees 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 an agreed format.
Validation checks on membership data to ensure it is adequate for valuation purposes.
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/sign off of Schedule of Contributions and certificate.
Preparation/sign off of other statutory certificates.
Corporate Actuarial
Advice on pension and other benefit accounting costs for purposes of FRS17, IAS19 and FAS87 accounting (assume one set of accounting figures and provision of draft disclosures for one employer).

Non Core Tasks
1. Ad hoc valuations arising as a result of changes in scheme structure, membership, membership profile or business activities.
2. 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
3. Advice relating to material changes in staffing levels and reporting on financial implications for members and benefit arrangements.
4. Calculations and advice arising in connection with changes in the contracting out status of the scheme or terms of contracting out.
5. Provision of certificates other than those provided under the services e.g. Section 67 Certificates.
6. Actuarial input/comment in relation to Statement of Investment Principles (SIP).
7. Liaise with trustees on Scheme administration matters as and when required.
8. Discussions with TPR in relation to funding plans, including particular Recovery Plans, SFS and calculation of Technical Provisions.
9. 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.
10. Detailed advice in relation to the impact on funding and solvency levels of TVs and the provision of TVs where schemes are not fully funded.
11. Detailed advice on alternative bases for the calculation of actuarial factors.
12. Advising on terms of any bulk transfers to be paid/received.

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