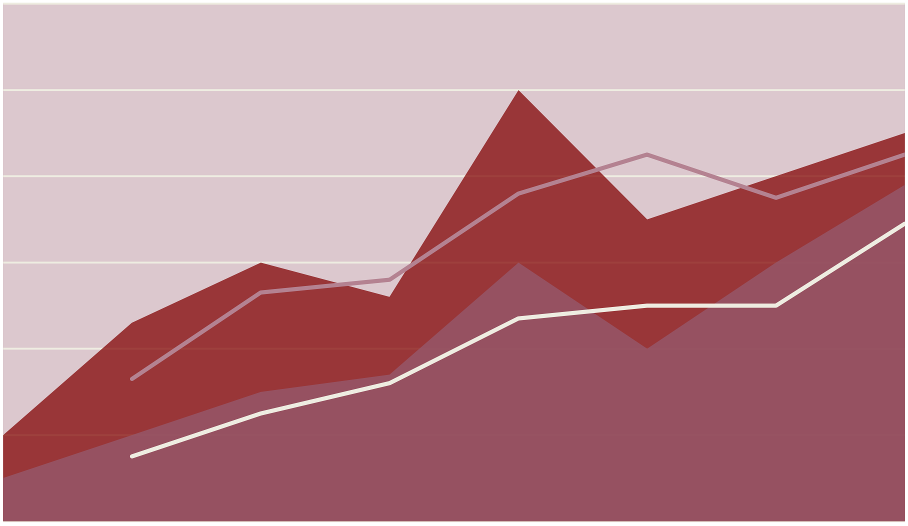
KGC associates



KGC's Fifth Actuarial Fee Survey

February 2015

Contents

Appendices

1.0. Introduction

In Q4 2014 20 firms accepted our invitation to participate in the fifth 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 A). 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
- 20 firms provided fees

2,000 life scheme
- 18 firms provided fees

5,000 life scheme
- 16 firms provided fees

10,000 life scheme
- 14 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

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:

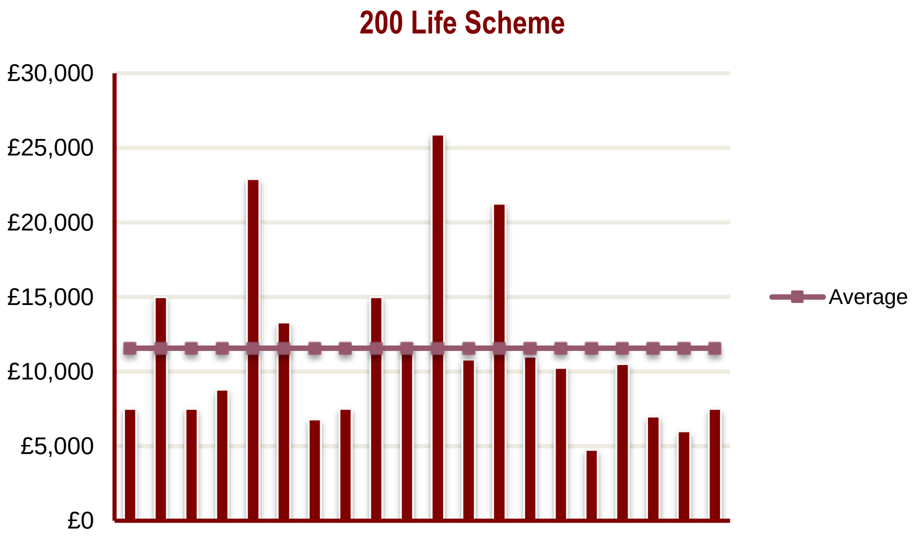
- annual actuarial
- ad hoc actuarial
- periodic actuarial
- triennial actuarial tasks – as a one off cost
- corporate actuarial
- valuation cost divided by three

[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

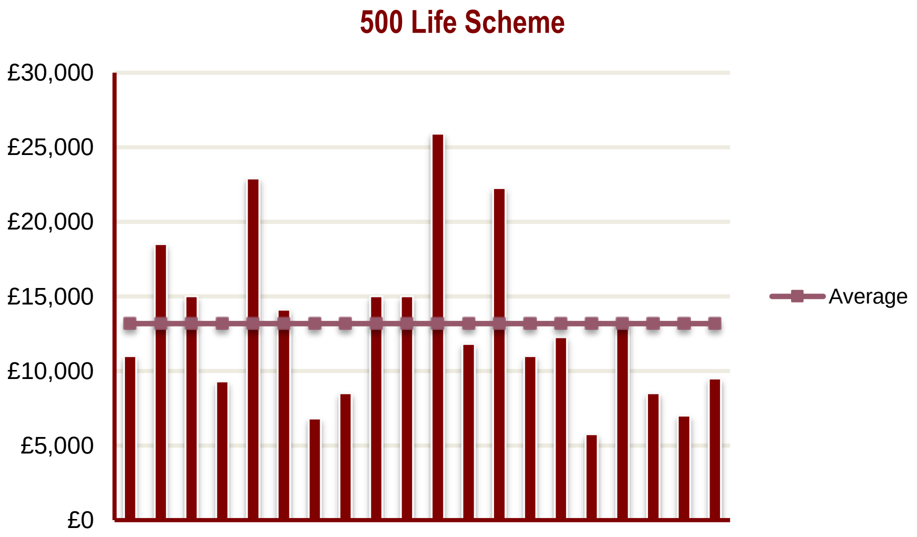
Graph 1a

For a 200 life scheme there is a difference of £21,200 between the lowest and the highest fee. Seven firms sit above the average fee and 13 below. 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 the average. The lowest fee is 59% less than the average.



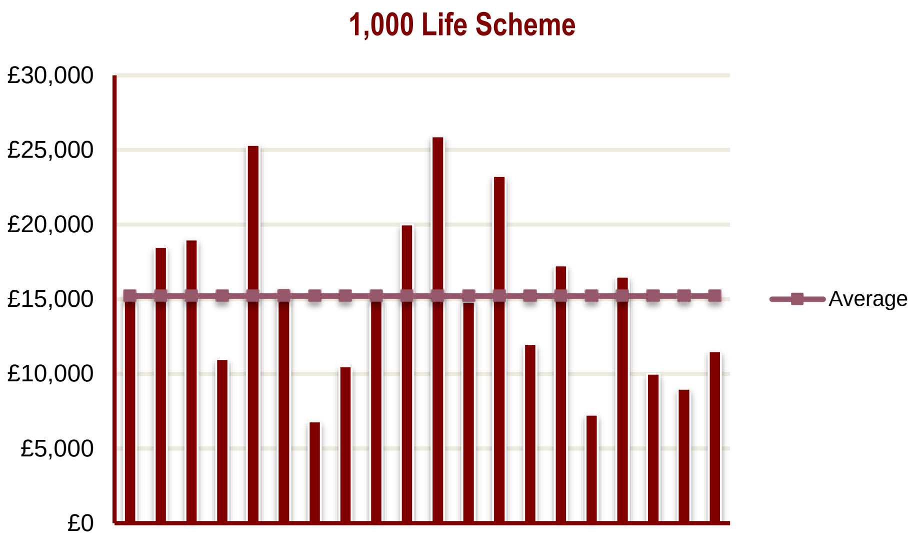
Graph 1b

For a 500 life scheme there is a difference of £20,200 between the highest and lowest fees and £12,700 between the highest and average fee of £13,200. Nine firms sit above the average with 11 below. The lowest fee at £5,750 is £1,000 more than the lowest fee for the 200 life scheme.



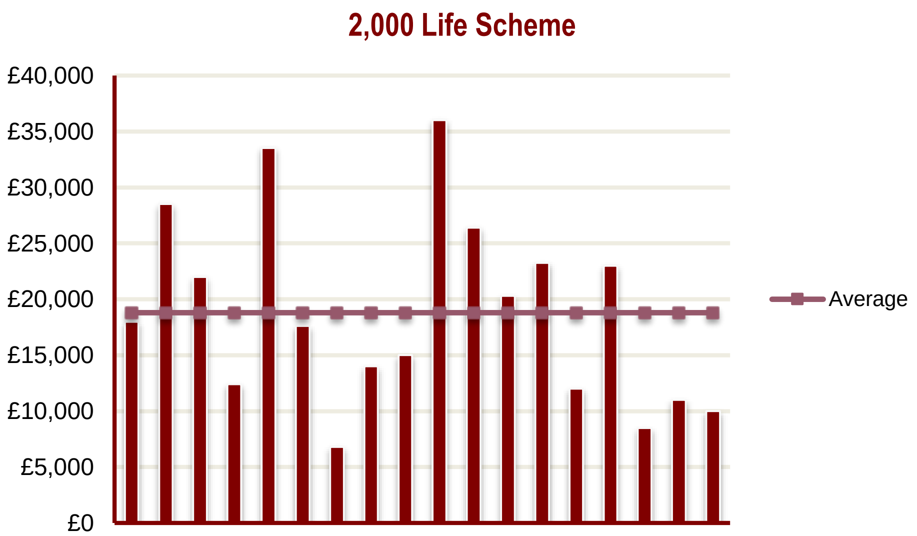
Graph 1c

At 1,000 lives, the cost difference between the highest and lowest has decreased in comparison to a 500 life scheme by £1,100, the difference now being £19,100. Interestingly the most expensive firm charges 22% less than the most expensive firm in 2013. Again nine firms are above the average of £15,200 whilst 11 firms are below. The most expensive firm is 3.8 times more expensive than the lowest charging firm compared to last year when it was a differential of five times. The highest fee is £10,700 more expensive than the average.



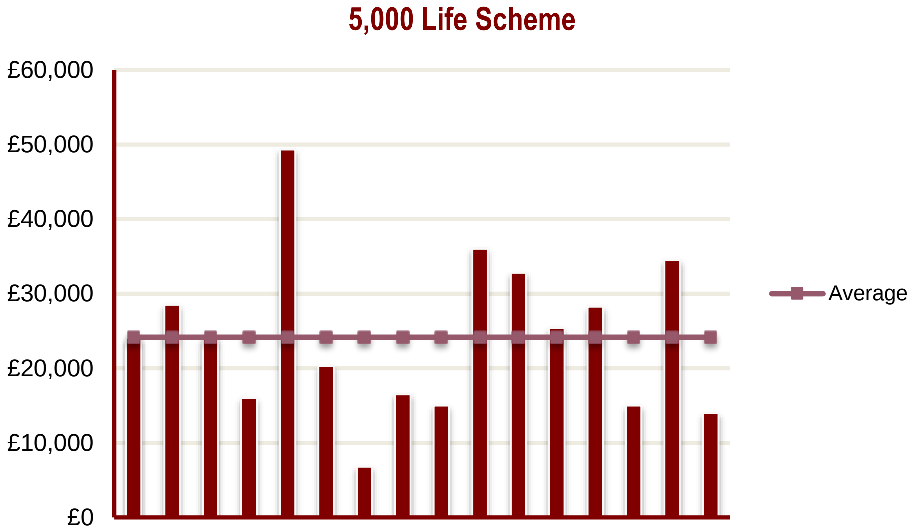
Graph 1d

The difference between the highest and lowest fee for 2,000 lives has increased to £29,200. 10 of the 18 firms are below the average fee of £18,800, with eight firms charging more. The most expensive firm is just over five times as expensive as the lowest fee of £6,800 and nearly twice as expensive as the average fee. The lowest firm charges 66% less than the lowest firm in our first fee survey.



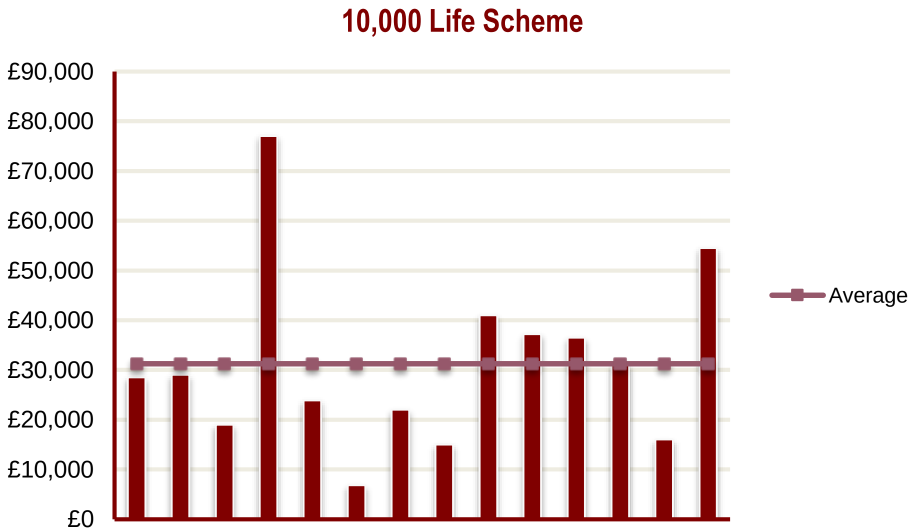
Graph 1e

At 5,000 lives, seven firms charge more than the average fee of £24,100. The cost difference between the highest and lowest fee has risen by £13,300 to £42,500 when compared to a 2,000 life scheme. The most expensive fee is 3% more when compared to the most expensive fee in 2013, this is the first time we have seen an increase for this year. The highest fee is now over seven times more expensive than the lowest fee and more than twice as expensive as the average.



Graph 1f

At 10,000 lives, there are five firms with fees above the average of £31,200, with nine below. The difference in cost between the highest and lowest has increased to £70,200, which is £4,725 more than in 2013. Again the highest fee is 3% more than the highest fee in 2013. The highest fee is now 11 times more expensive than the lowest fee, compared to only eight times last year. The highest fee is nearly two and a half times as expensive as the average fee.

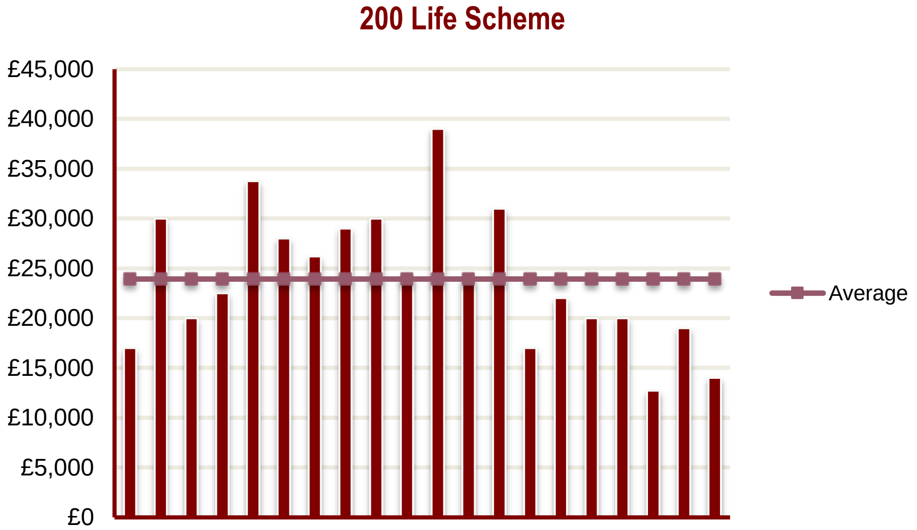


2.2 Triennial Valuation Fee

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.

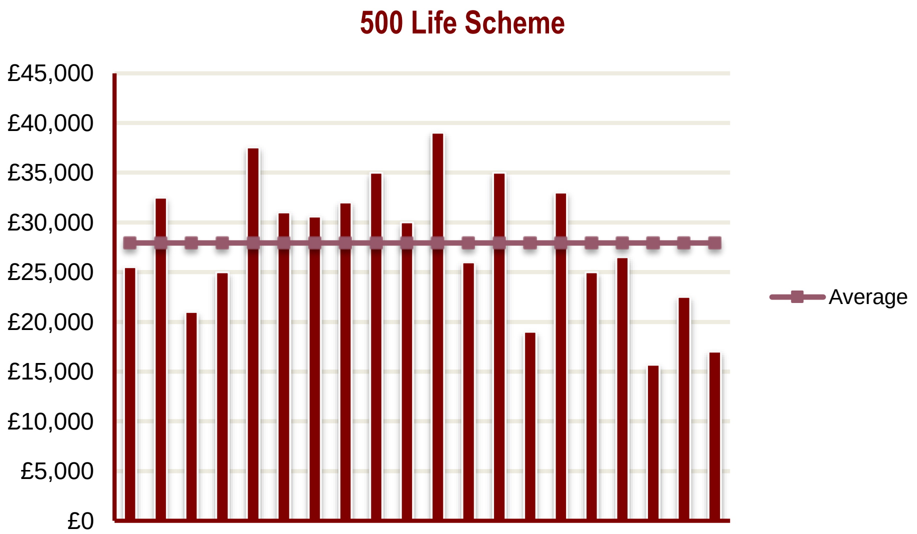
Graph 2a

At 200 lives, there is a difference of £26,300 between the highest and lowest fee. Eight of the 20 firms are above the average fee of £24,200 with 11 below and one charging the same. The highest fee is three times more expensive than the lowest fee. The highest fee also is 63% more than the average, which in turn is 47% more than the lowest fee of £12,700. Interestingly, the highest, lowest and average fees are similar to those in the 2013 survey.



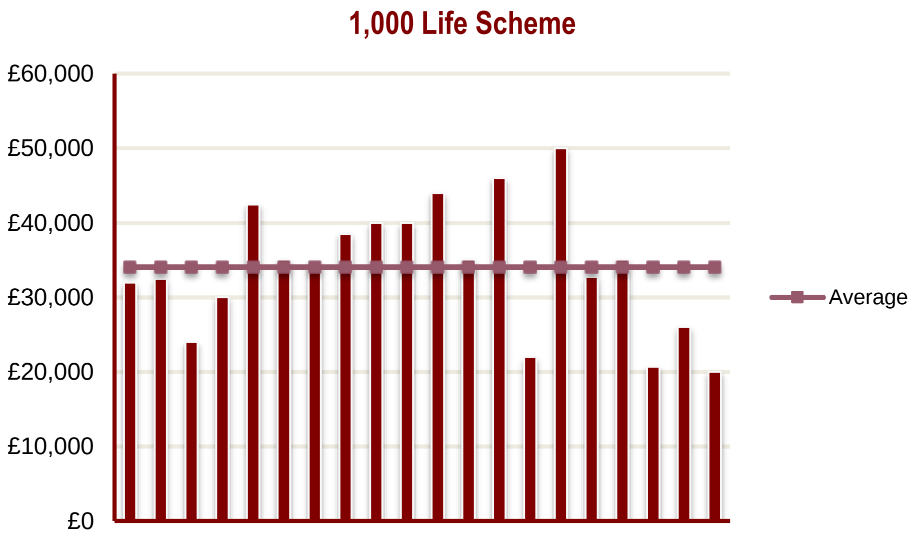
Graph 2b

The difference between the highest and lowest fees in the 500 life scenario is £23,300, which is £3,000 less than the difference experienced by the 200 life scheme. The highest charging firm is nearly two and a half times more expensive than the lowest charging firm. The highest firm charges 40% more than the average fee of £27,900. Half of the firms charge more than the average fee and half charge less.



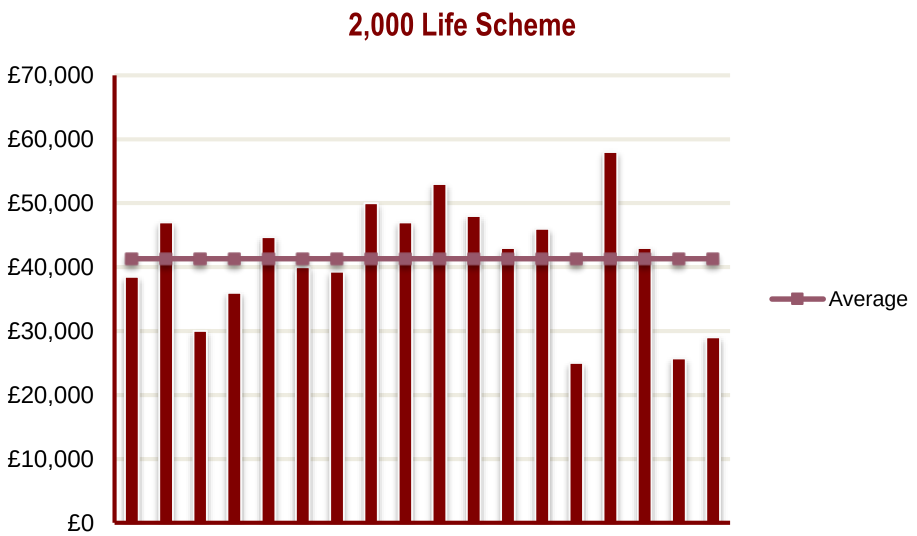
Graph 2c

At 1,000 lives, the cost difference between the highest and lowest fees has increased to £30,000, this is 29% higher than the difference for a 500 life scheme. There are 11 firms above the average and nine below, the average is now £34,000. The highest charging firm is two and a half times more expensive than the lowest. The average fee is £16,000 less than the highest fee and £14,000 more than the lowest fee.



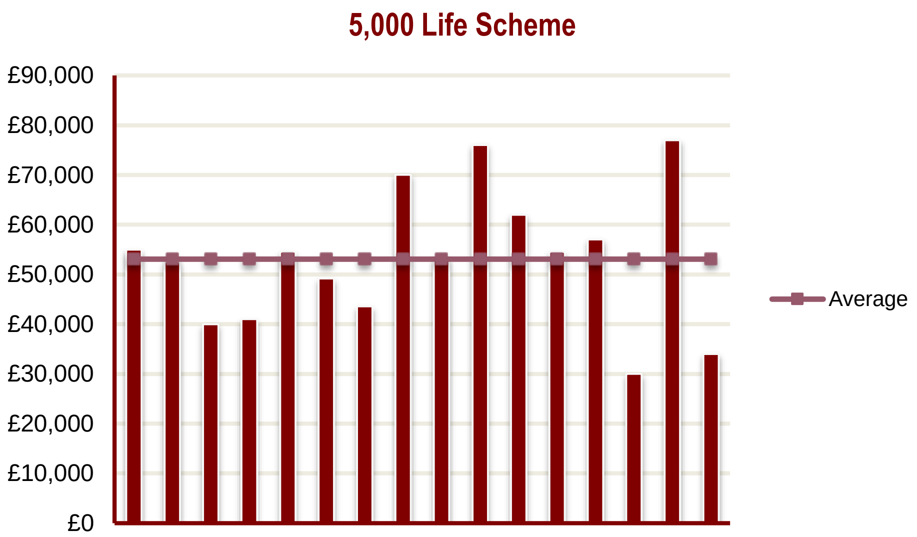
Graph 2d

The difference between the highest and lowest at 2,000 lives has only increased by £3,000 to £33,000. Nine firms have higher fees than the average of £41,300 and nine firms have lower fees. When comparing this year's figures to our first survey, the most expensive fee has decreased by 14%, whereas the lowest fee has increased by 9%. The lowest fee is nearly 40% less than the average fee which is on par with the difference experienced in 2013.



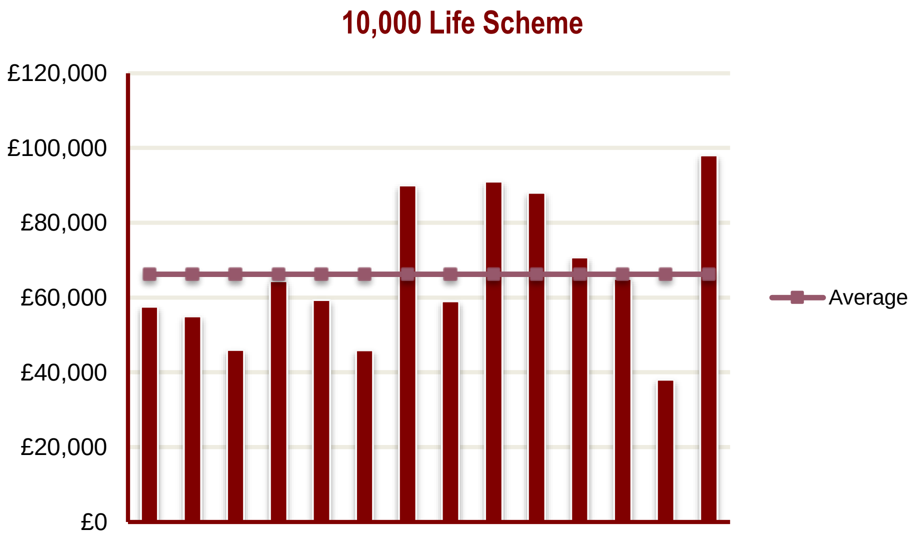
Graph 2e

At 5,000 lives, the range in cost between the highest and lowest has increased to £47,000. Half of the firms charge more than the average of £53,100 whilst the other half charges less. The most expensive firm charges just over two and a half times the lowest firm. The lowest firm charges 44% less than the average fee. This year's fees are very similar to those charged in 2013; however the highest fee represents a 14% decrease compared to the highest fee in our first survey.



Graph 2f

At the largest scheme size the range in cost between the highest and lowest has increased significantly to £60,000. This is an increase of 13% in the cost range when compared to 2013. Only five firms sit above the average fee of £66,300 with nine below. The lowest fee is 43% lower than the average and the highest fee is 48% higher than the average. The highest fee is again approximately two and a half times more expensive than the lowest fee. The highest fee is 10% less than the highest fee in 2013 and a 22% decrease on the highest fee in our first survey.

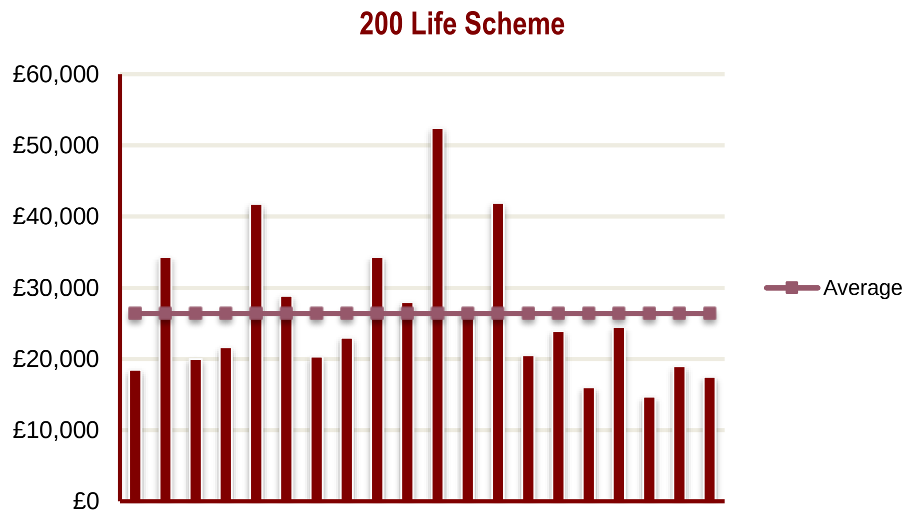


2.3 Year One Fee

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.

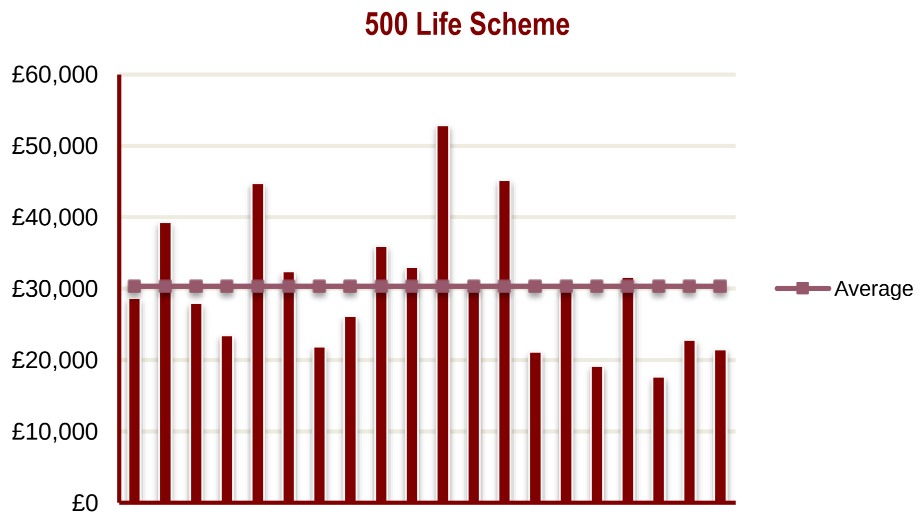
Graph 3a

For the 200 life scheme there is a difference of £37,700 between the highest and lowest fee. Eight firms charge more than the average fee of £26,400 and 12 firms charge less. The most expensive firm charges three and a half times more than the lowest fee. When comparing the highest fee with the average, it is nearly twice as expensive. The average is 44% more than the lowest fee. This year's figures are similar to those experienced in 2013, the only notable difference is the lowest fee – this year the fee is 18% more than the lowest fee in 2013.



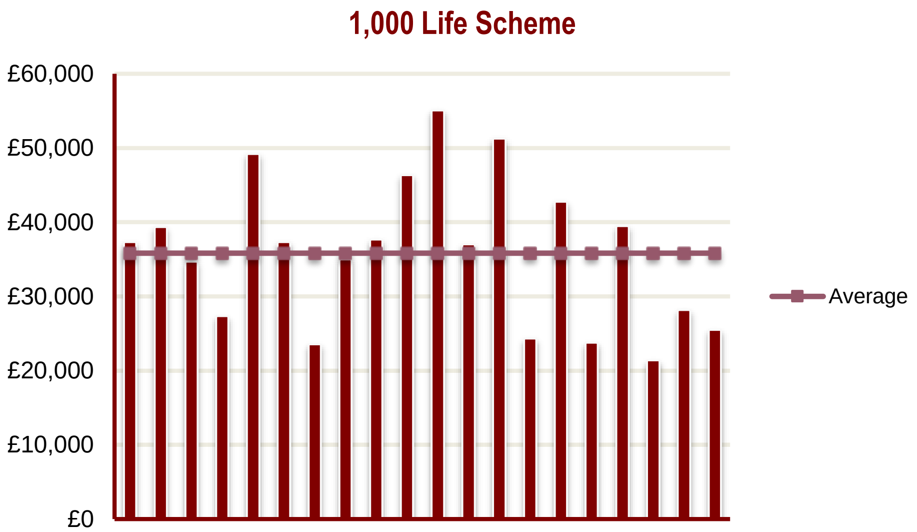
Graph 3b

Moving to the 500 life scheme, the difference between the highest and lowest is now £30,300. Nine firms charge more than the average of £30,300 compared to 11 charging less. The highest charging firm is nearly three times more expensive than the lowest charging firm. The highest charging firm is 75% more expensive than the average whilst the lowest is 42% less. There has been an 11% increase in the lowest fee when compared to 2013.



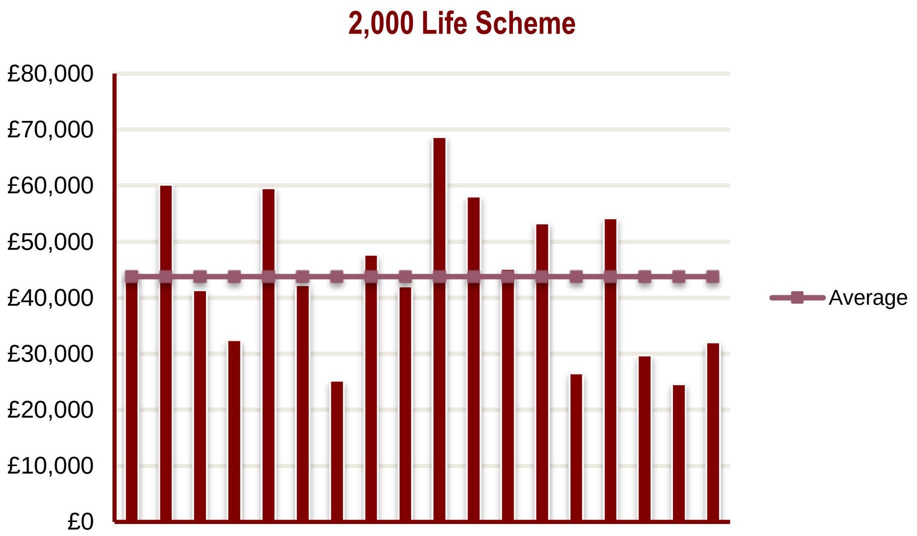
Graph 3c

At the 1,000 lives the cost difference between the highest and lowest fee is now £33,700, which is nearly £6,000 less than the difference experienced in 2013. 11 firms are more expensive than the average of £35,800 and nine firms are lower. The most expensive firm charges slightly over two and a half times the lowest fee. When comparing the highest and lowest fees with the average fee, the highest fee is 54% more whilst the lowest is 40% less.



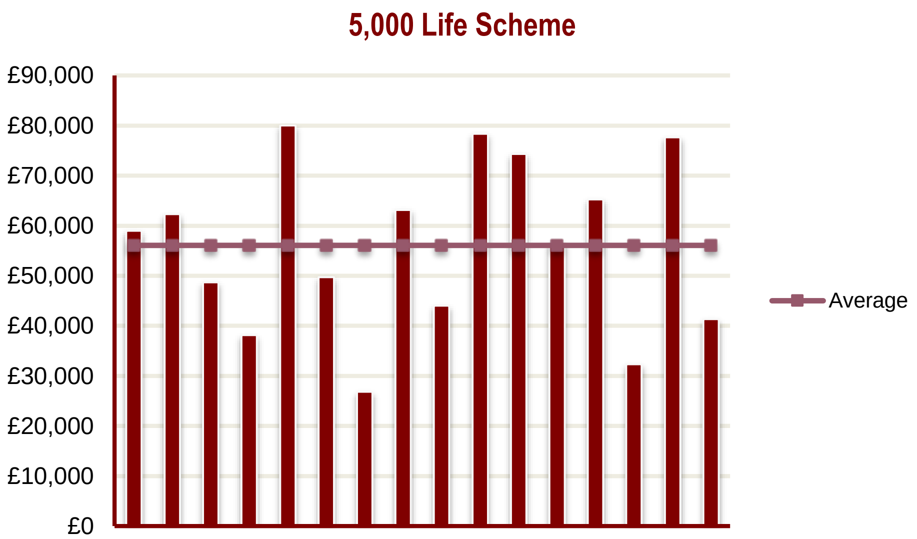
Graph 3d

At 2,000 lives the difference between the highest and lowest fees is now £44,100, again this is a fall when compared to 2013, when the difference was £47,000. Half of the firms charge more than the average of £43,800 and half charge less. The most expensive firm charges nearly three times as much as the lowest fee. When comparing the highest and lowest fees to the average costs, the highest is 57% more and the lowest is 44% less. Interestingly comparing this year's fees to those in our first survey, the highest fee has decreased by 9% but the lowest fee has increased by 25%.



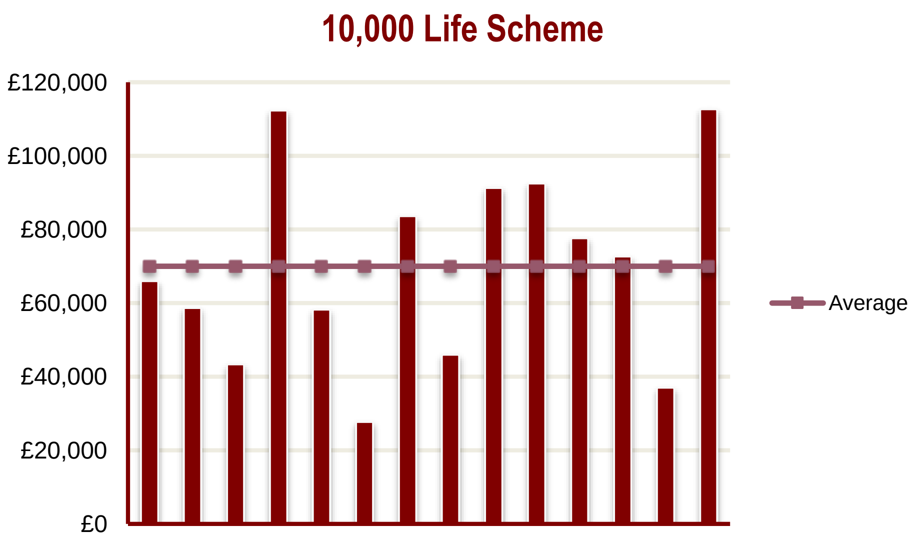
Graph 3e

In the 5,000 life scenario, the range in cost between the highest and lowest is £53,200, Similar to 2013, more firms charge above the average fee but this is less marked with only nine charging more and seven charging less. The most expensive firm charges nearly three times as much as the lowest. Interestingly, the highest fee is 26% less than the highest fee in our first survey and the lowest fee is 28% less than the lowest fee in the same survey. The highest firm charges 43% more than the average fee of £56,100 and the lowest firm charges 52% less.



Graph 3f

Reaching the largest scheme size, the range in cost between the highest and lowest is now significantly increased to £85,000. Firms are split equally around the average fee of £70,000, seven above and seven below. The highest charging firm is four times more than the cost of the lowest. The highest firm charges 61% more than the average, whereas the lowest is 60% less. When comparing the highest and lowest fees from this survey to our first survey, there is a decrease of 18% and 38% respectively,



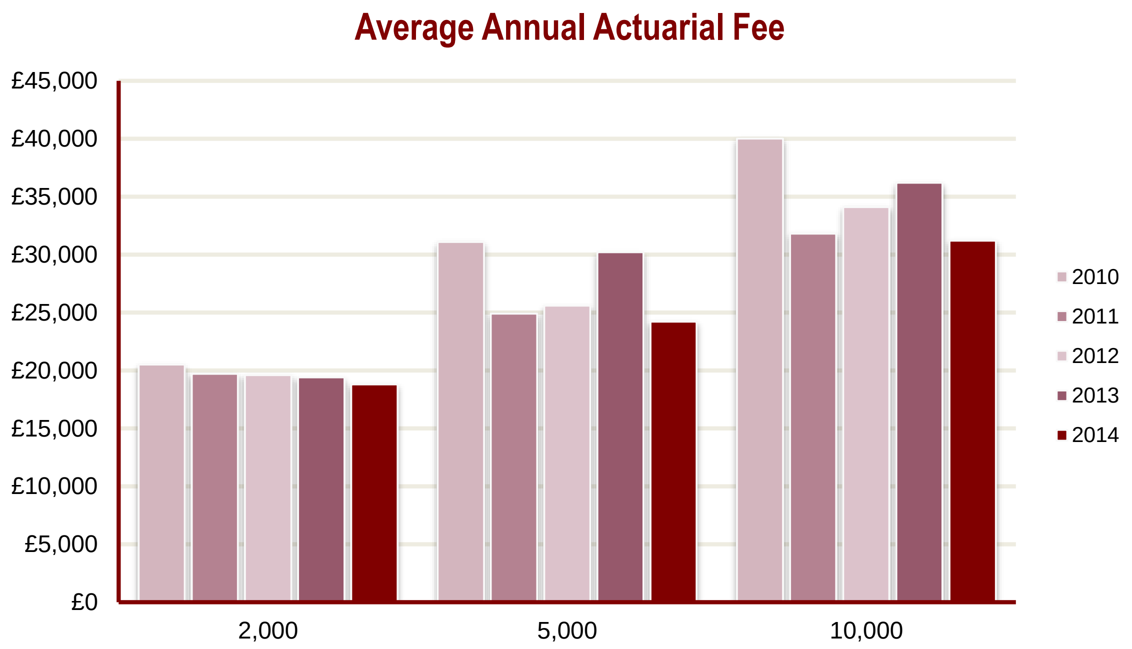
3.0 Year on Year Comparison

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

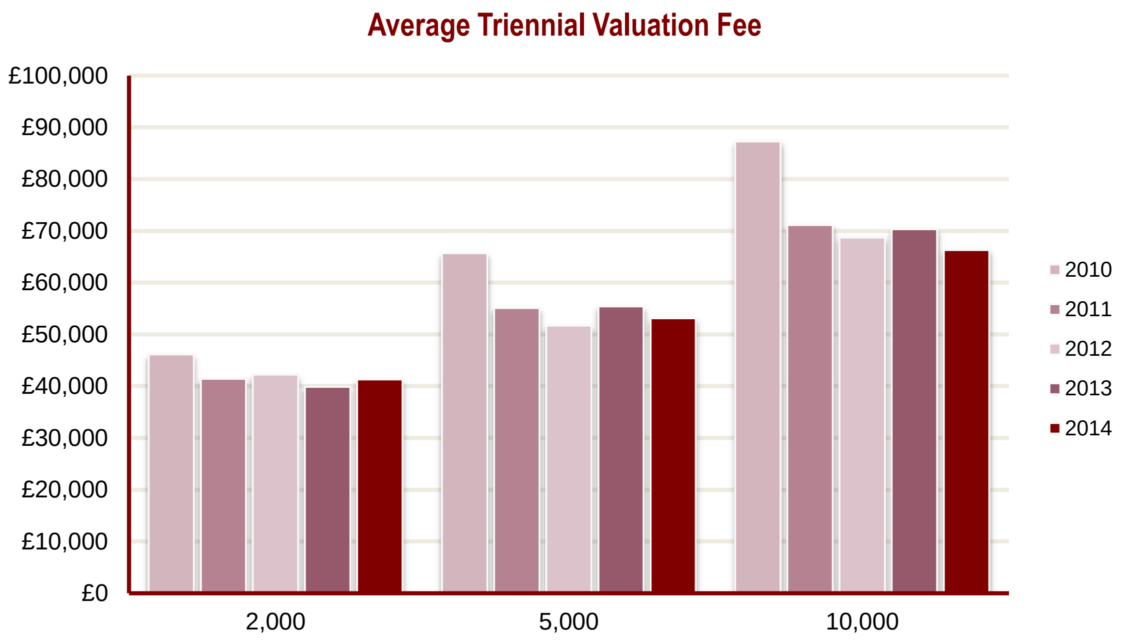
No. Firms	2010	2011	2012	2013	2014
2,000	13	14	18	16	18
5,000	11	13	12	11	16
10,000	10	13	10	10	14

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.

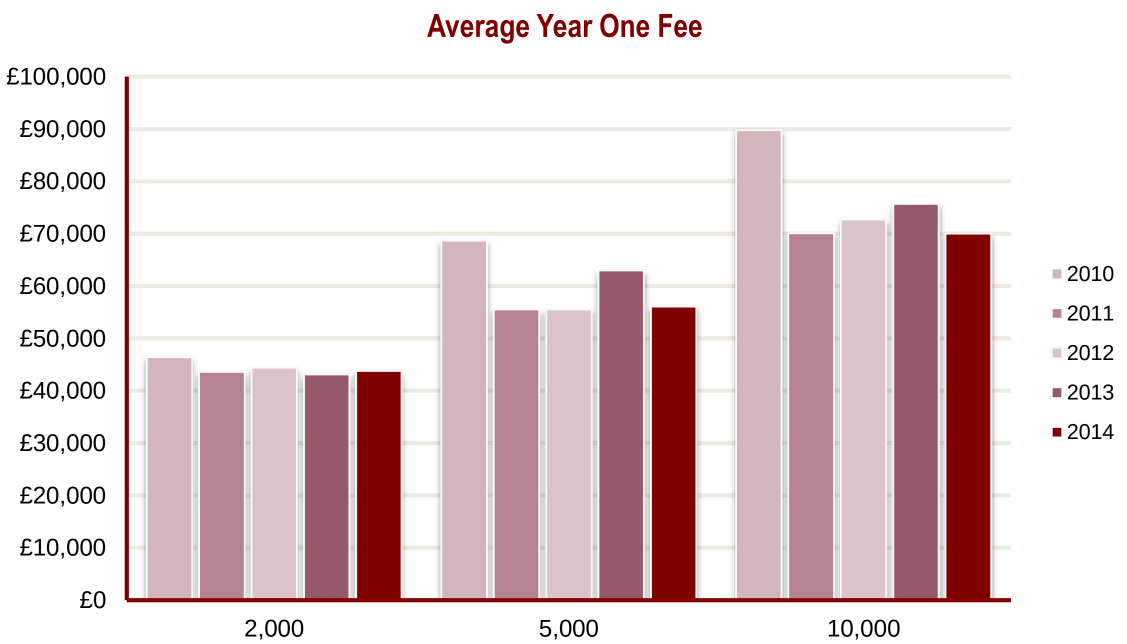
Looking at 2014, the fee decreased slightly when compared to 2011 and 2012 for all scheme sizes. In all scheme sizes the fees are now below the average first experienced in 2010. For the 5,000 and 10,000 life schemes, the upward trend experienced in 2013 is now in reverse.



In 2014, the triennial valuation fees increased slightly for a 2,000 life scheme when compared to 2013 but remains below the baseline created by 2010's results. Both the 5,000 and 10,000 life averages have decreased compared to 2013. And, similar to the 2,000 life results, both are below the 2010 starting point.



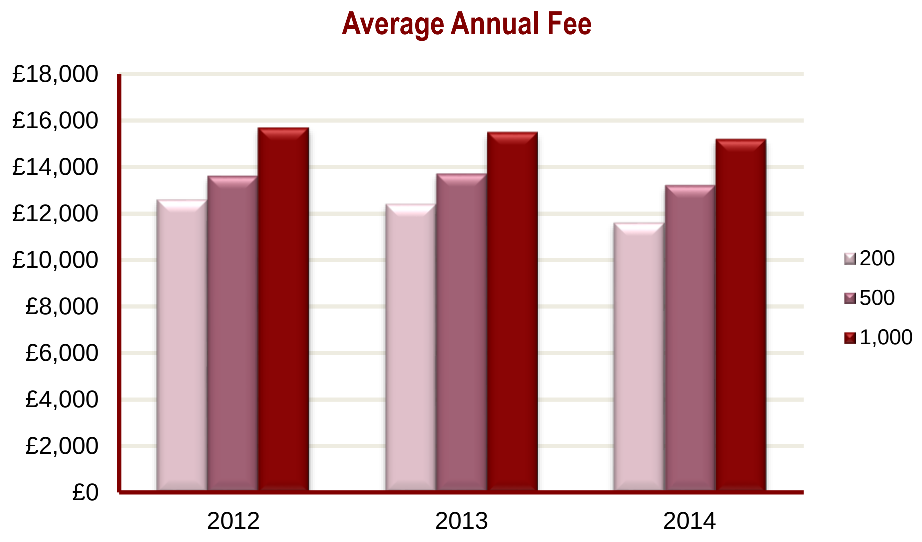
All Year One fees remain below the start point of the 2010 figures. However the 2,000 life scheme size has experienced a small increase compared to 2013, whilst the 5,000 and 10,000 life scheme sizes have experienced a reduction. These mirror the experiences of the Triennial fee results.



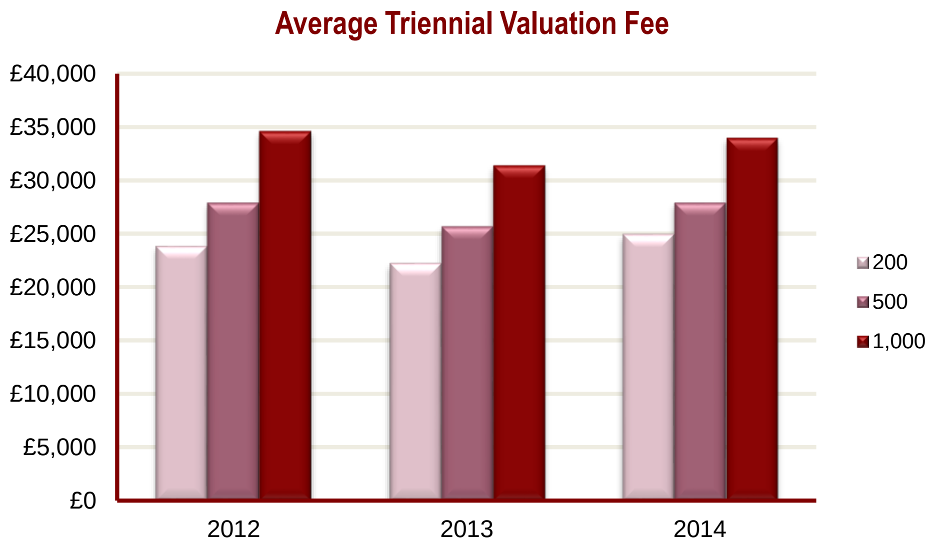
Small Schemes

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.

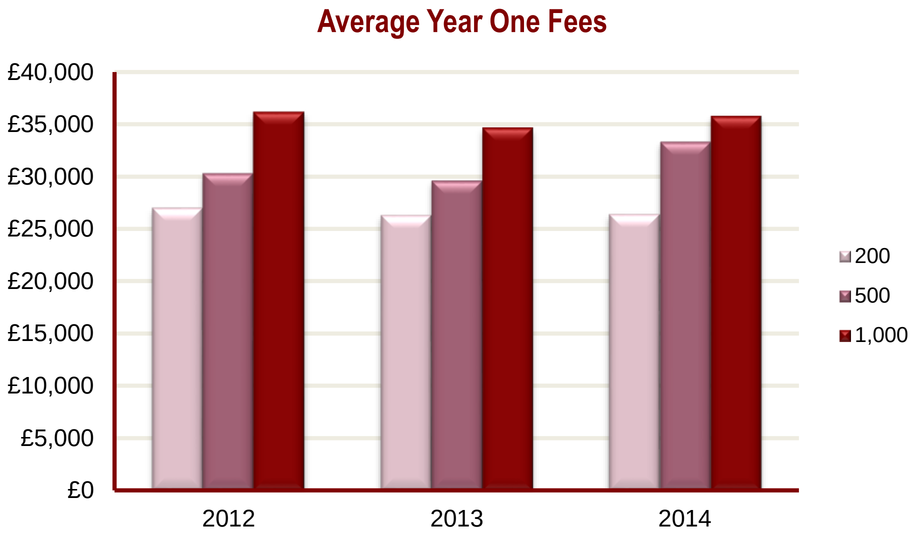
Looking at 2014, the annual actuarial fee decreased slightly in comparison to 2013 for all small scheme sizes.



The average triennial valuation fee for 2014 has increased since 2013. There is little or no change in the year on year results for either the 200 or 500 life scheme fees since 2012, however the 1.000 life scheme has decreased by £600.

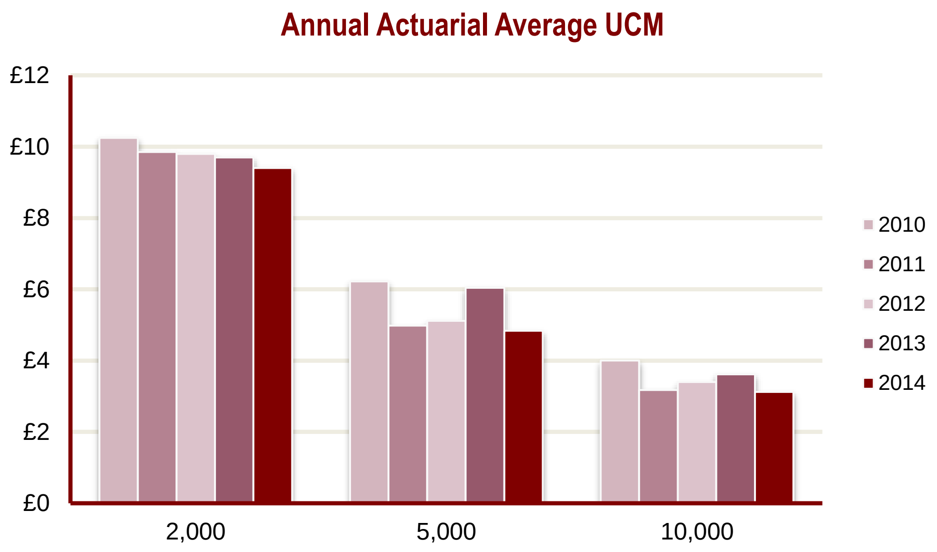


Year one fees for the 200 and 1,000 life schemes have decreased compared to 2012 but increased on 2013. Conversely the fees for the 500 life scheme are the same as the fee experienced in 2012 but increased compared to 2013.



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 2014, the average **annual actuarial UCM** for a 2,000 life scheme is **three times** higher than for a 10,000 life scheme and a 5,000 life scheme is **55%** higher than a 10,000 life scheme.

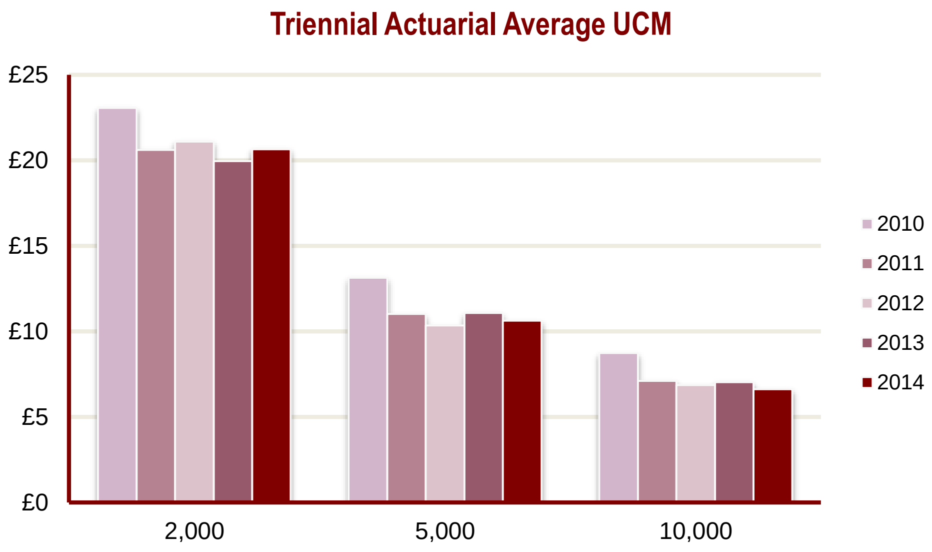
In 2013 the average **annual actuarial UCM** for a 2,000 life scheme is **two and a half times** higher than for a 10,000 life scheme and a 5,000 life scheme is **67%** higher than a 10,000 life scheme.

In 2012 the average **annual actuarial UCM** for a 2,000 life scheme is nearly **three times** 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 **three times** 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 **two and a half times** 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



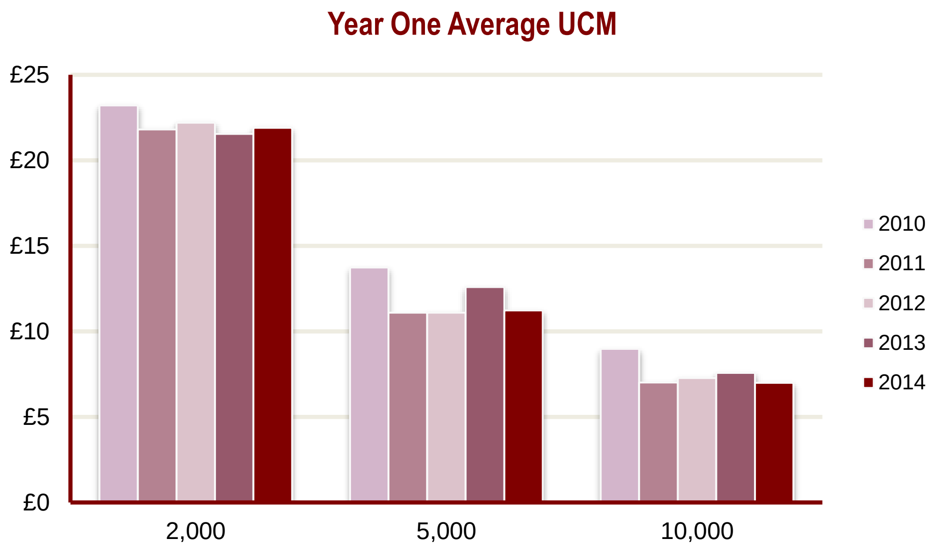
In 2014 the average **triennial actuarial UCM** for a 2,000 life scheme is over **three times** higher for a 10,000 life scheme and a 5,000 life scheme is **60%** higher than a 10,000 life scheme.

In 2013 the average **triennial actuarial UCM** for a 2,000 life scheme is almost **three times** 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 **three times** 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 **three times** 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 slightly over **two and a half times** higher than a 10,000 life scheme, a 5,000 life scheme is **51%** higher than a 10,000 life scheme.



In 2014 the average **year one UCM** for a 2,000 life scheme is just over **three times** higher than for a 10,000 life scheme and a 5,000 life scheme is **60%** higher than a 10,000 life scheme
In 2013 the average **year one UCM** for a 2,000 life scheme is nearly **three times** higher than for a 10,000 life scheme and a 5,000 life scheme is **66%** higher than a 10,000 life scheme.

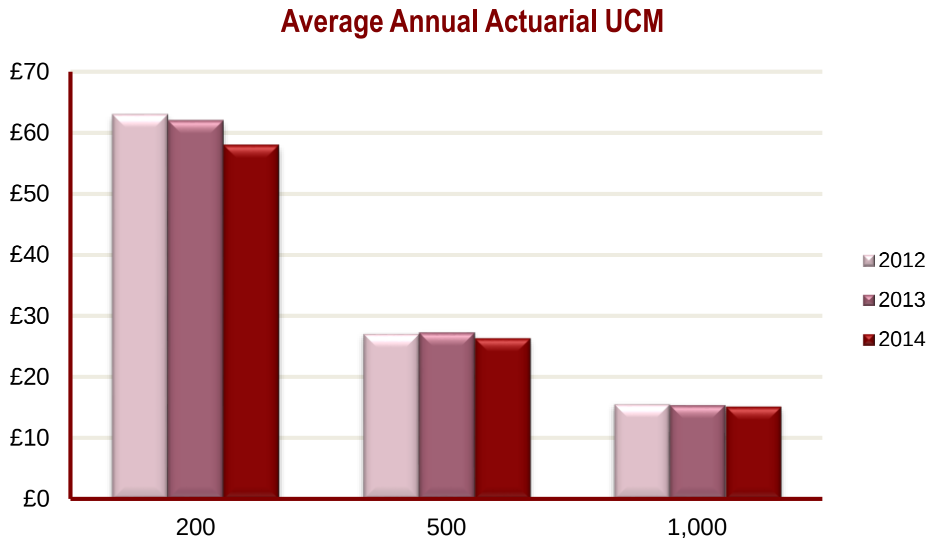
In 2012 the average **year one UCM** for a 2,000 life scheme is slightly more than **three times** higher than a 10,000 life scheme, a 5,000 life scheme is **53%** higher than a 10,000 life scheme

In 2011 the average **year one UCM** for a 2,000 life scheme is slightly more than **three times** 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 **two and a half** 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 three 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. There continues to be a significant cost differential across all years between the large and smaller schemes.

Small Schemes

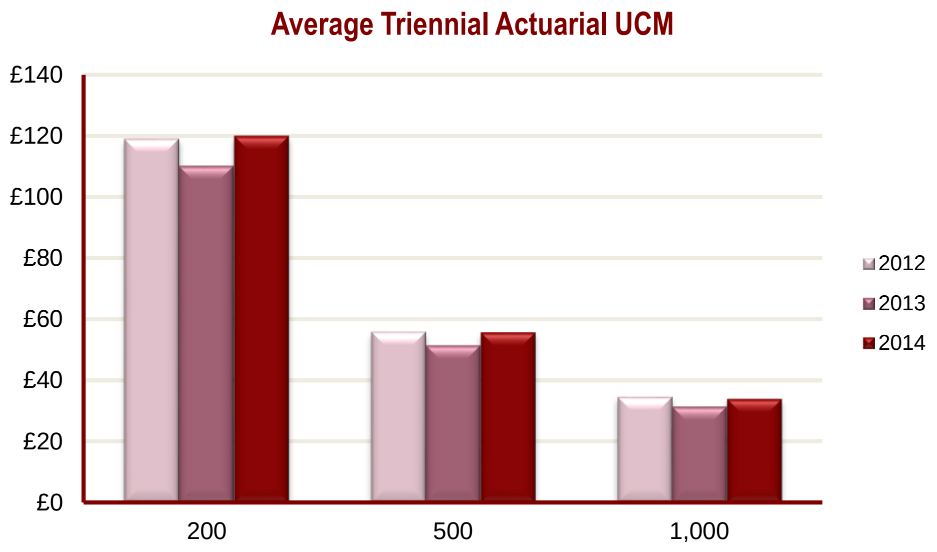


In 2014 the average **annual actuarial UCM** for a 200 life scheme is nearly **four times** higher than for a 1,000 life scheme and a 500 life scheme is **73%** higher than a 1,000 life scheme.

In 2013 the average **annual actuarial UCM** for a 200 life scheme is **four times** higher than for a 1,000 life scheme and a 500 life scheme is **77%** higher than a 1,000 life scheme.

In 2012 the average **annual actuarial UCM** for a 200 life scheme is just over **four times** higher than for a 1,000 life scheme and a 500 life scheme is 73% higher than a 1,000 life scheme.

Again the average **annual actuarial UCM** for the smaller schemes has changed little year on year. A 200 life scheme UCM is £4 less in 2014, a 500 life scheme UCM is £1 less and a 1,000 life scheme UCM is only £0.30 less.

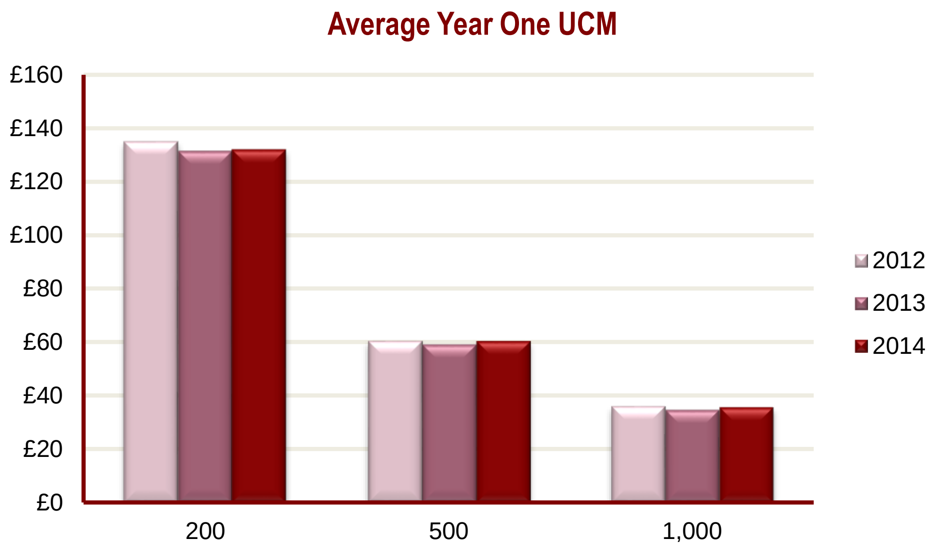


In 2014 the average **triennial actuarial UCM** for a 200 life scheme is **three and a half times** higher than for a 1,000 life scheme and a 500 life scheme is **64%** higher than a 1,000 life scheme.

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

In 2012 the average **triennial actuarial UCM** for a 200 life scheme is not quite three and a half times higher than for a 1,000 life scheme and a 500 life scheme is 61% higher than a 1,000 life scheme.

The 2014 average **triennial valuation UCM** for the smaller schemes has seen an increase since 2013. Most significantly is the increase of £10 for the smallest scheme size. The 500 life scheme has seen an increase of £4.40 and the larger scheme size of £2.60.



In 2014 the average **year one UCM** for a 200 life scheme is just over **three and three quarter times** higher than for a 1,000 life scheme and a 500 life scheme is **69%** higher than a 1,000 life scheme.

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

In 2012 the average **year one UCM** for a 200 life scheme is just under **three and three quarter times** higher than for a 1,000 life scheme and a 500 life scheme is **60%** higher than a 1,000 life scheme.

The 2014 average **year one UCM** for the smaller schemes has seen an increase on the 2013 figures. A 200 life scheme UCM is £0.50 more, a 500 life scheme UCM is £1.40 more and a 1,000 life scheme UCM is £1.10 more.

5.0 Proportion of Core and Non Core Services

Core

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.

Nearly a third of firms do not provide 100% of the annual tasks which we expect to see as core. When comparing value for smaller schemes only 60% of firms provide all tasks, whereas 80% of firms do so for the very large schemes. If this information is set against the UCM results, the disparity in value for money issue becomes more significant for smaller schemes.

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.

Task one asked firms how they would cost an ad-hoc valuation. 11 firms would provide this for an additional fixed fee and the cost for this ranged from £3,250 up to £60,000, with the average being around £25,000. This is an increase on the range from 2013 which was £1,000 up to £50,000. 45% of firms stated this would be provided on a time cost basis, hourly charge out rates ranged from £80 to £500.

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. Five firms said it would be an additional fixed fee ranging from £300 – £20,000, last year’s range was £1,000 - £10,000. 75% of firms stated this would be provided on a time cost basis. Hourly charge out rates for time cost work ranges from £80 – £500 with the average cost being £260 per hour.

Task three asked about schemes requiring advice relating to material changes in staffing levels and reporting on financial implications for members and benefit arrangements. One firm includes this task within its core fee offering. Five firms would charge an additional fixed fee, for those providing a figure the additional fixed fee price ranges from £3,000 – £10,000. 70% 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 included this within their fixed fee, five firms stated it would be an additional fixed fee ranging from £2,000 – £10,000, the top end of this range has doubled in comparison to 2013. 70% 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. Five firms said it would be provided for an additional fixed fee, one firm included this within their core fee and 70% 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). Three firms stated this would be included within their fixed fee, six firms would charge an additional fixed fee and 55% 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. Interestingly only six firms include this within their fixed fee, 60% of firms stated this would be provided on a time cost basis and only 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. 80% of firms would charge on a time costs basis, one firm would provided and additional fixed fee and three firms included 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. Five firms include this within their core fee and five firms would charge an additional fixed fee ranging from £750 – £3,000. 50% of firms would charge on a 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. Half of the firms would charge an additional fixed fee and the cost of this ranged from £3,000 – £10,000, in 2013 the fixed fee cost ranged from £1,000 – £10,000.

Task eleven asked about costing for detailed advice on alternative bases for the calculation of actuarial factors. Six firms would charge an additional fixed fee ranging from £3,000 – £4,000. In 2013 the fee ranged from £1,000 – £3,000. 45% of firms would charge on a time cost basis and five 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. The majority of firms stated this would be provided on a time cost basis, three firms would charge an additional fixed fee.

6.0 Industry Views

The last few years have seen unprecedented change in terms of legislation, use of technology, economic pressure on employers and so forth. Probably more important has been the sheer pace of change in the pensions landscape and how this has affected, schemes, trustees, employers and service providers. We asked participants six questions:

1. The survey asks you to give a cost for the core services any DB scheme will need to meet statutory requirements. In the real world schemes require much more from their actuary.

   a. What other key areas your clients specifically asking you to focus on?
   b. How are you developing your value proposition for these areas so clients' budgets are controlled?

2. What is your experience of the changeover to Experian and its systems, have they improved the efficiency and accuracy of the results?

3. How do you believe the changes to the way the PPF failure score is worked out will impact on sponsoring employers and therefore their budgets?

4. How has de-risking strategies impacted on your relationships with your investment consulting colleagues?

5. How does this change if investment advice is delivered from a peer firm or if the whole investment piece is outsourced to a fiduciary manager?

6. A number of schemes have worked through the more familiar de-risking strategies and are looking for more creative solutions.

   a. How do you think your work will change as a result and
   b. What strategies do you think will become the next trend for schemes?

There were common themes running through all the responses to the questions. Most commonly they featured de-risking journeys, with virtually all providers seeing this as the main service area outside the normal statutory services provided:

The clear focus remains primarily on de-risking schemes and ideas to remove liabilities at lower cost than the Technical Provisions or Buy-Out levels

Clients are focusing on risk reduction either looking at their investment strategy and/or liability reduction exercises (including consideration of how these might interact with recent Budget changes)

Providers also believed that increasingly technology was required to deliver the services required for de-risking services:

More technology to improve efficiency and give trustees information swiftly

The participants also believed that the recent budget changes would lead to more developed thinking in terms of the de-risking strategies:

DB to DC and how this links to more de-risking- given the new DC flexibilities this is becoming more attractive

We are likely to see a growth in transfer exercises from DB to DC schemes in the run up to April 2016

The flexibility for members drawing benefits from DC schemes introduced in this years' Budget, is likely to lead to a "new" de-risking strategy for DB schemes. Whilst there have been flexible retirement solutions available to DB members in the past, these have often been suited only to members with impaired lives

Athough it is probably fair to say their thinking is still developing in this area.

As de-risking is such a major factor in the relationship with the schemes, we were keen to understand how it affected the relationship with investment consultants and fiduciary mangers (where used).

The services are normally delivered from a peer and, if there is a fiduciary manager we would expect to work closely with them to devise the best strategy

De-risking strategies involve analysis of both the assets and liabilities, and thus require a close working relationship between the Scheme Actuaries and investment consultants

More involvement in investment strategy formulation

A common consesus that it is important to work closely with the investment consultant or the fiduciary manager where de-risking is involved.

Moving onto the PPF levy and the new Experian systems, both have generated a mixed response. Whilst some providers believe it is too early to tell, others have formed some views both good and bad.

While the new Experian scoring system is more straightforward and more transparent than the D&B system it replaces, we are still seeing a number of common issues that can weaken scores (and increase the levy amount) and which can be solved relatively easily. Taking appropriate action now could save substantial sums on next year's levy

It is clear that there are unwelcome cliff edges between categories (for example, a client increasing turnover and profit can fall under a different scorecard and be rated more negatively, despite an obvious improvement in outlook)

A more open approach to determining the levy is welcome. The ability to access these scores on line and use the 'what if' analysis is helpful. However, the scoring system produces anomalous results especially for small companies that are very strong (Band 1 under the D&B methodology)

Improved efficiency of access to scores and like that access can be shared with advisers However, majority of our clients (SMEs?) have poorer scores than with D&B and many are questioning simplicity of model which can give major fluctuations

We welcome the Experian model which uses industry standard techniques and allows for the PPF's experience to date. The improvement in predictiveness for the PPF "universe" of sponsors resulting from a focus on a smaller number of relevant variables is also welcomed

The survey focuses on costs and services, we survey the costs that provide a statutory compliant scheme, ie what they have to do. Much of the income is derived from other areas and its important to understand how providers look to ensure value for money is delivered, particularly as the services they deliver are key to the scheme's objectives. Participants provided a variety of responses to this question:

Move to towards a "core services" fee model. More technology to improve efficiency and give trustees information swiftly. In turn this will change how the industry provides actuarial information to trustees and place more emphasis on the "so what" rather than the number generation. More fixed-fee options. Widening of the skill sets of our actuaries

It is important to agree the scope of any engagement with clients in relation to expected deliverables and costs so there are no surprises. Any unanticipated complications etc. which arise need to be discussed with clients at an early stage so that any impact on the costs/timescales can be discussed

Many of the response focused on the participants development or improvements of de-risking products but a number did mention developing their Client Relationship Model to work more closely with administrators. Others talked about using technology to improve service, to provide more instantaneous services to clients.

However, the key theme for this year's responses remains de-risking including all the GMP reconcilaition work required, the exciting piece appears to be advising on the budget proposals for more de-risking opportunities.

Main area is de-risking both for corporate and trustee client both in relation to liability management and investment strategy. The recent budget changes and the opening up of more flexibility at retirement has given additional scope for advice in this area

7.0 Summary

The current topical issue for all schemes is value for money. This year we looked beyond cost and service in isolation and compared what schemes received against the cost per member. The result was disconcerting in that not only do small schemes pay more for their core services, but they also receive a smaller range of services than their larger peers.

In 2013 the results showed an increase in costs and we asked if fees would subsequently move downwards once this popular valuation year had passed. There have been some interesting results within the survey notably:

- Across all scheme sizes annual fees show a downward trend following the increases in 2013
- The year on year results for Triennial and Year One fees were inconsistent and move both up and down, rather than in previous years where there was one consistent direction
- All fees remain below the 2010 levels, although some are now close
- UCM – The pricing differentials between the scheme sizes are tending to remain the same even where fees are going up or down

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.