

Professional Pensions

KGC Actuarial Fee Survey 2011 – Headline Results

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1. Introduction

Earlier in 2011 14 firms accepted KGC's invitation to participate in its second Actuarial Fee Survey. KGC was pleased to note this represented an increase from 2010. The survey data was collected via Survey Monkey™ where each firm was asked to provide a fee for a set of core sub services (see 5.0 below). Firms were given the opportunity to identify additional added value services which they normally include as core. The firms were asked to cost three scheme sizes – 2,000, 5,000 and 10,000 lives.

KGC divided the main components¹ within an actuarial service into six sub services these include:

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

1.1. Scenario Assumption

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

The scenarios were as follows:

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

2. Fee Analysis Explanation

KGC used the results to create three types of graphs illustrating scheme costs. All providers' fees are compared against the mean fee for 2,000, 5,000 and 10,000 life schemes. Component fees are rounded to the nearest hundred for clarity. Firms which costed larger scheme sizes, but admitted they had no current clients in this range were excluded from the results to avoid unnatural skewing.

KGC performed further analysis into the sub services to test the value of the firm's propositions relative to their costs.

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

3. Graphs

The first set of graphs shows the annual actuarial fee and includes:

- annual actuarial – e.g. certification
- ad hoc actuarial – e.g. updates
- periodic actuarial – e.g. attendance at trustee meetings

The second set of graphs shows the triennial valuation fee and includes:

- triennial actuarial tasks e.g. factor review,
- full valuation cost

The last set of graphs illustrates a total cost² and includes:

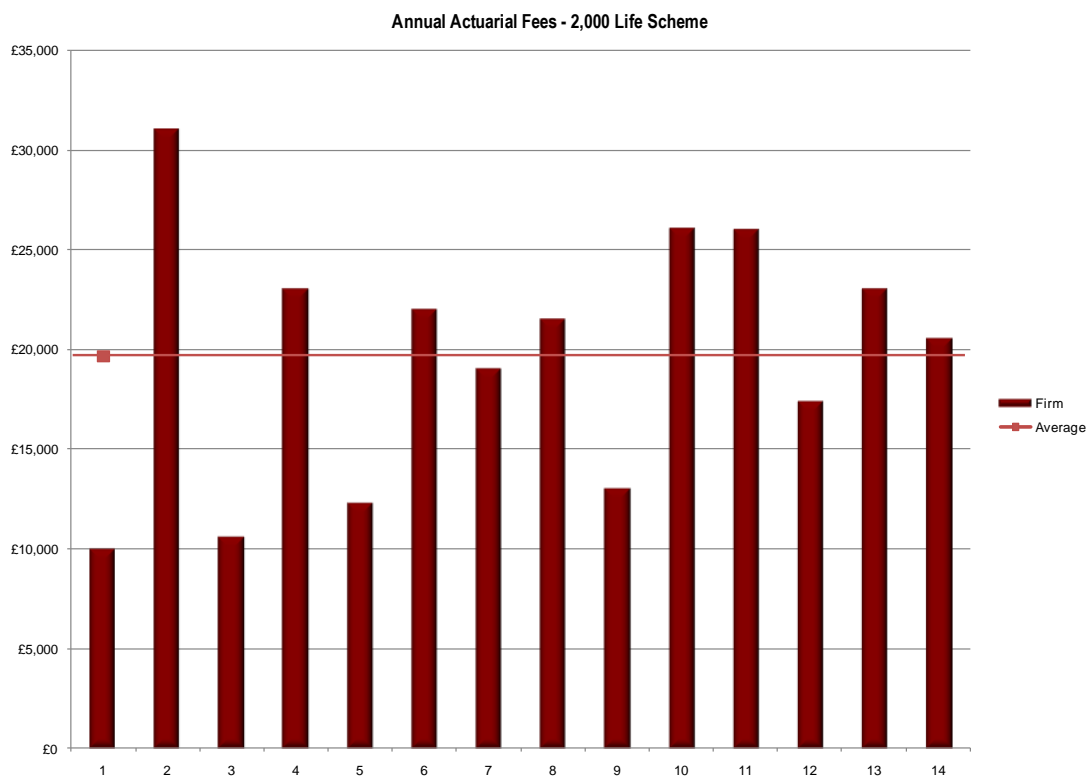
- annual actuarial
- ad hoc actuarial
- periodic actuarial
- triennial actuarial tasks – as a one off cost
- corporate actuarial
- valuation cost divided by three

3.1. Graph Set 1

Graph 1a

Annual Actuarial Fee – 2,000 Life Scheme

There is a £21,000 range between the highest and lowest cost firm. This is a 40% reduction from 2010 and indicates much greater competitiveness at the smaller scheme size. Six firms charge less than the average cost. The most expensive firm is one and a half times more expensive than the average annual cost and the lowest provider is almost half the cost of the average fee.

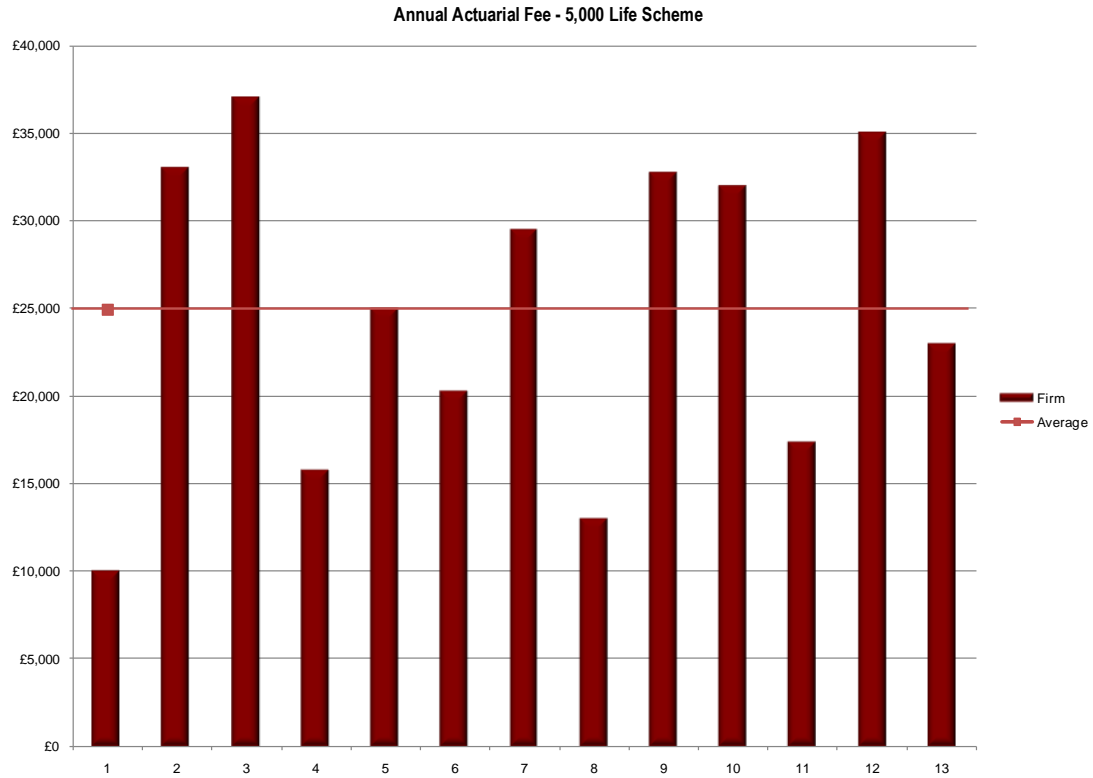


² KGC acknowledges schemes are unlikely to incur a 'total cost' because tasks within annual/triennial actuarial may overlap, however it enables better comparison.

Graph 1b

Annual Actuarial Fee – 5,000 life scheme

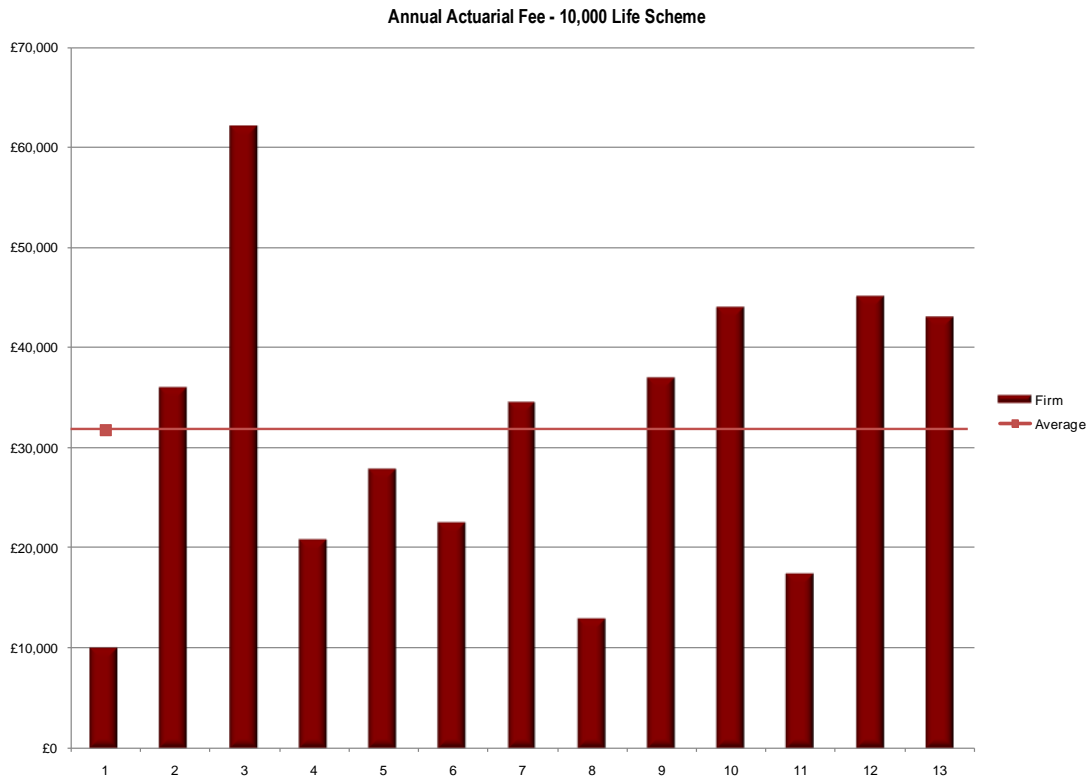
The range in cost between the highest and lowest has increased slightly from 2,000 life scheme to £27,000. However this is down by more than 23% on 2010. Again the majority of firms cost more than the average fee with only six firms charging less than the average. The most expensive firm is one and a half times more expensive than the average annual cost and the lowest provider is two and a half times less than the average cost.



Graph 1c

Annual Actuarial Fee – 10,000 life scheme

The range in cost between the highest and lowest has now significantly increased to £52,000 - only 13% less than the annual actuarial fee in 2010. Interestingly it seems this year the majority of firms' fees are above the average annual actuarial fee, compared to last year when the majority were below. This indicates the improved competitiveness shown in the smaller schemes is not so evident here. The most expensive firm is almost double the cost of the average fee, which in itself is three times more expensive than the lowest provider.

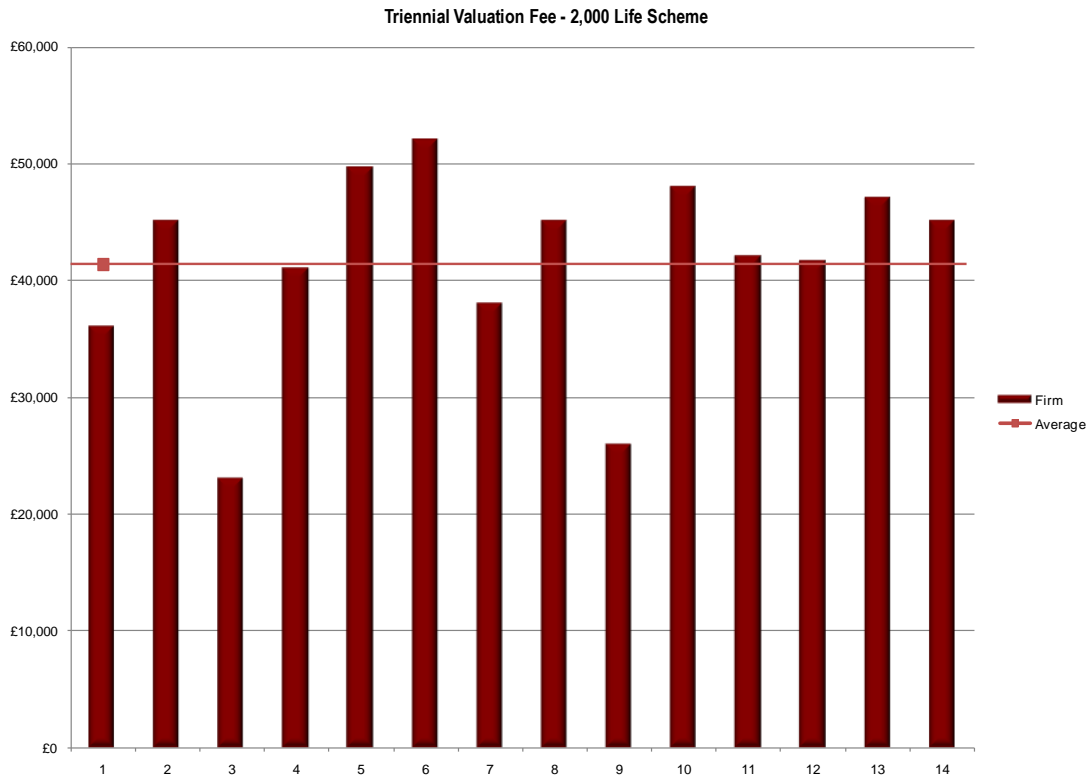


3.2. Graph Set 2

Graph 2a

Triennial Valuation Fee – 2,000 life scheme

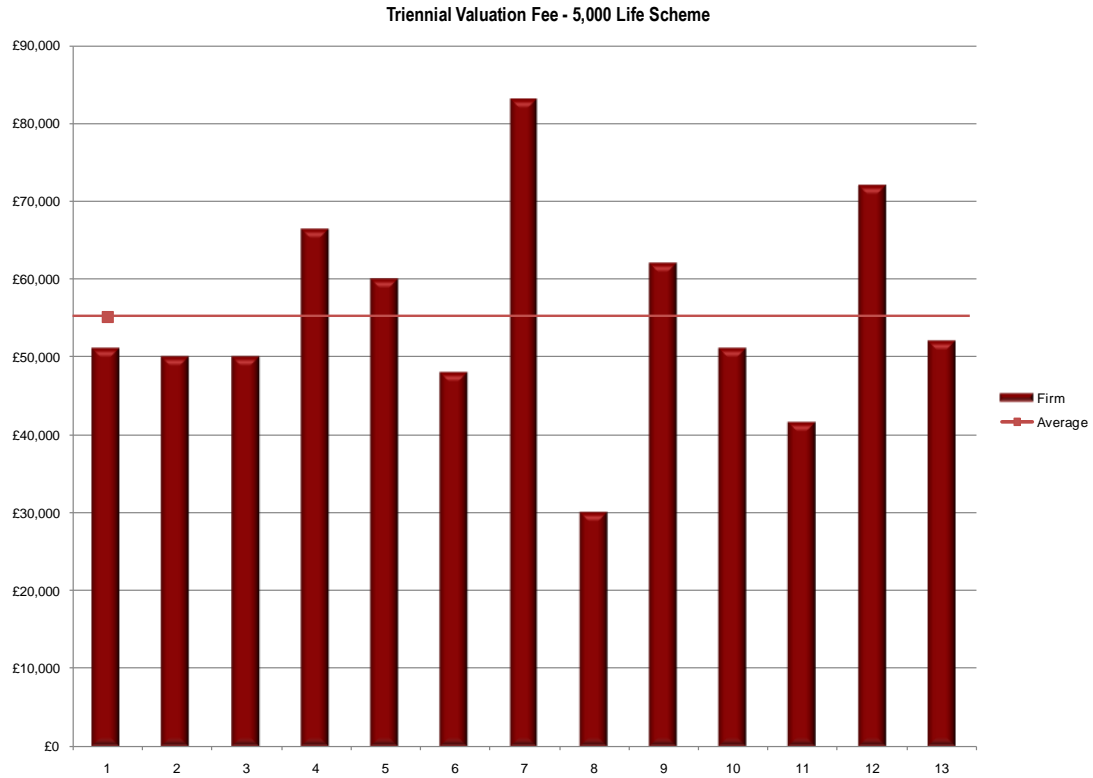
All firms were asked to price a valuation up to delivery of draft results with no account taken of any post-delivery negotiations. The £29,000 range between the highest and lowest cost firm has reduced by almost 35% from 2010. Although nine firms still charge more than the average cost. The most expensive firm's cost is nearly 26% higher than the average annual fee, but the lowest provider is almost half of this.



Graph 2b

Triennial Valuation Fee – 5,000 life scheme

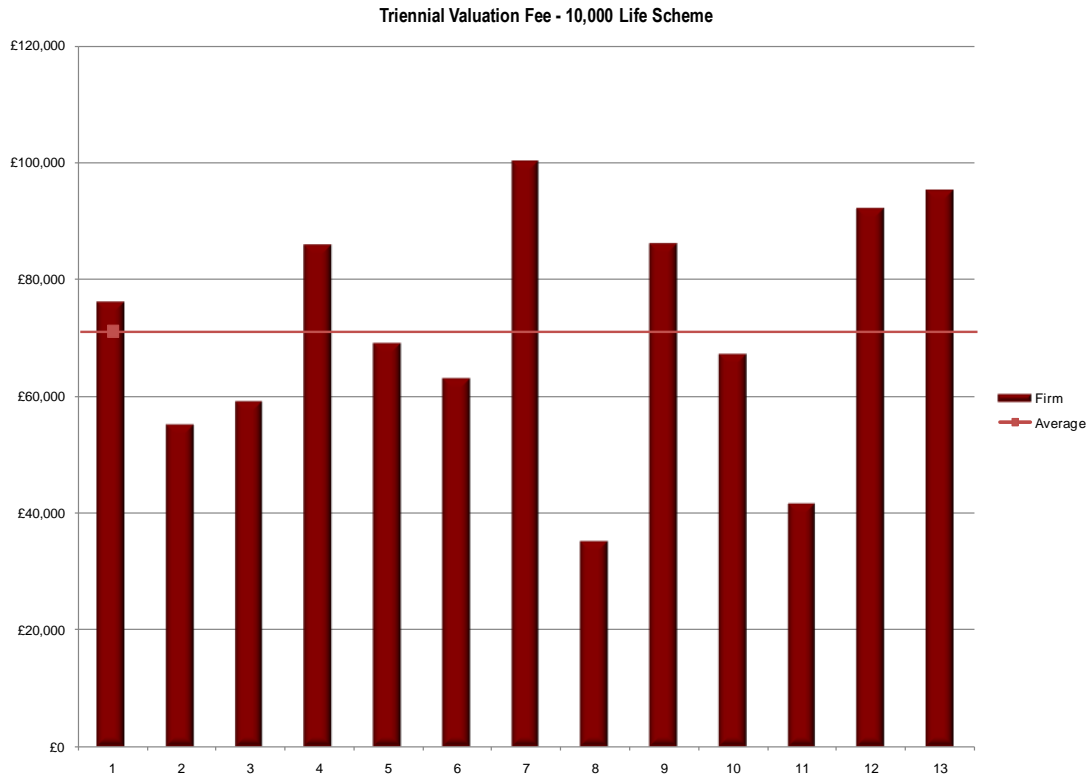
The range in cost between the highest and lowest has increases almost in line with scale and at £53,000 is almost double that of a 2,000 life scheme. There is little change from 2010 overall in the fee range, but interestingly the tables have turned and the majority of providers now charge less than the average. The most expensive firm is one and a half times more expensive than the average and the lowest provider is almost half.



Graph 2c

Triennial Valuation Fee – 10,000 life scheme

The range in cost between the highest and lowest slightly increased on that of a 5,000 life scheme to £65,000 which is a 27% improvement on 2010. The average fee is higher than in 2010 and more than twice the cost of the lowest in 2011. The most expensive firm charges almost one and a half times more than the average.

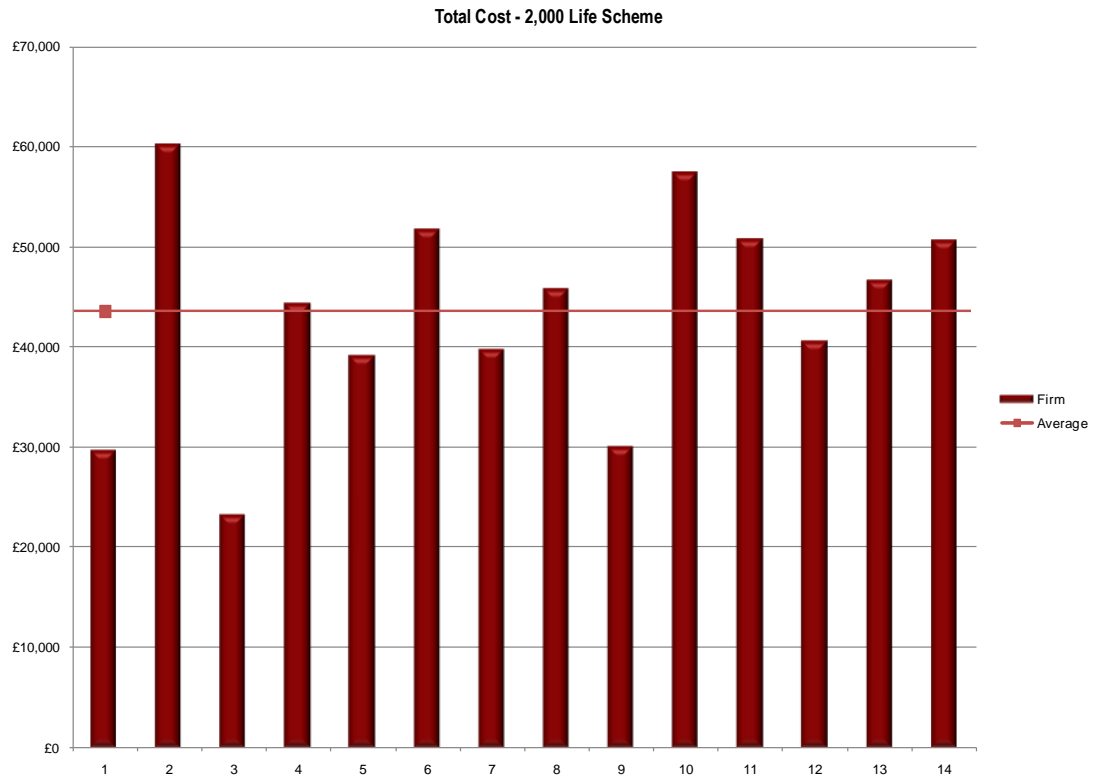


3.3. Graph Set 3

Graph 3a

Total Cost – 2,000 life scheme

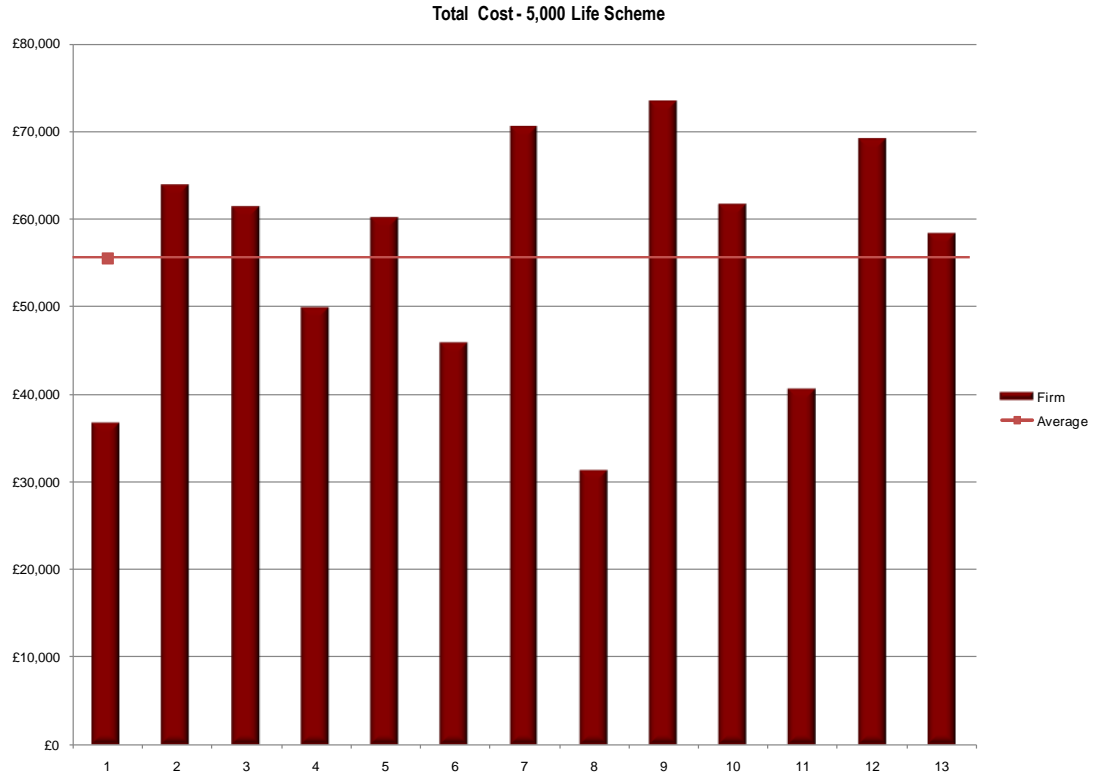
Grouping all the core actuarial services together to give a smoothed annual cost shows there is a significant difference in competitiveness for effectively the same service. The most expensive firm is more than two and a half times more expensive than the lowest provider, with only six firms charging less than the average cost. Even so, the results show competitiveness is increasing over time with the range being more than a third less than in 2010.



Graph 3b

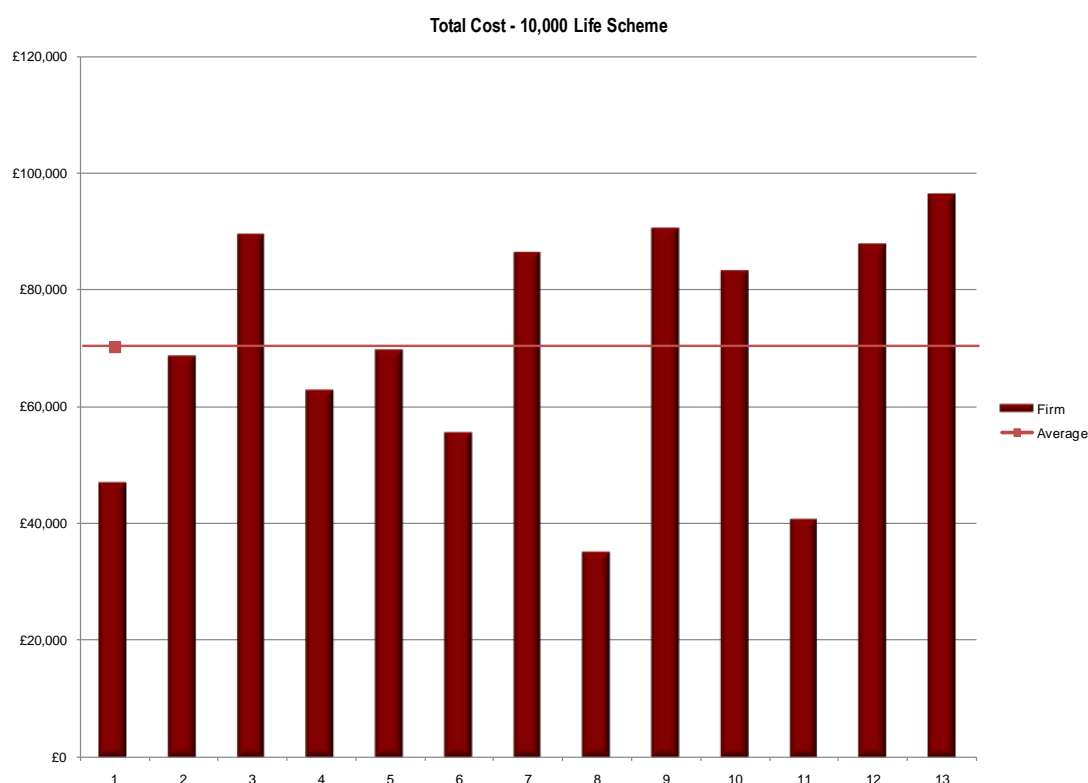
Total Cost – 5,000 life scheme

The range in cost between the highest and lowest firm has increased only slightly from a 2,000 life scheme to £42,100. This is also a 40% improvement on last year's survey results and indicates that competitiveness at this scheme size is at its greatest. Interestingly the number of firms above the average cost has stayed the same as a 2,000 life scheme, with only five firms being less than the average. The most expensive firm is nearly £18,000 more expensive than the average total cost. The average fee is almost twice as expensive as the lowest.



Graph 3c**Total Cost – 10,000 life scheme**

Competitiveness appears to drop away at the larger scheme sizes. The range between the highest and lowest is almost one and a half times more expensive than that of a 5,000 life scheme. With the most expensive firm being nearly three times more expensive than the lowest charging firm and 37% more than the average. However this still represents an overall improvement of more than a third from 2010. There is also less of difference between firms being above or below the average with a more balanced result.

**4. Proportion of Core Tasks**

There is an argument that comparison of actuarial fees alone yield skew results because some firms offer more than others. Within KGC's core services there are 23 tasks for survey purposes (see table in 5. below). This enables like for like comparison and allowed KGC to test the value relative to cost of the firm's propositions. The percentage of tasks offered for each core service showed how many firms offer 100% of tasks for the quoted fee. Most firms offer around 90% of tasks and so KGC is comfortable a near like for like comparison is possible.

- annual fees – six firms offer 100% of tasks (decreases to five at 5,000 and 10,000). Interestingly two providers below the average cost only offer 64% of the tasks listed so although their fees are lower the actual service offered does not have as much value as other providers
- triennial valuation fees – seven firms offer 100% (decreases to six at 5,000 and 10,000). One firm only offers 64% of the tasks but all other firms offer 80% and above
- total cost – five firms offer 100% (decreases to four at 5,000 and 10,000)

5. Service Provided

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

Core Tasks	Y/N	Notes
Annual Actuarial		
Production of annual actuarial report(s) as required by legislation.		
Production of annual Summary Funding Statement (SFS) - including approximate annual updates of funding position.		
Notification and guidance on PPF Levy (level of levy to be expected in coming year).		
General advice on PPF levy (to be expected in coming year). Guidance regarding contingent assets, D&B monitoring and PPF levy.		
Calculate/deliver and certify annual deficit reduction figures.		
Annual submission of deficit reduction certificates to PPF via Exchange.		
Provide input to require mandatory documents certification e.g. Scheme Return, Annual Accounts etc.		
Provide monthly market value adjustment to CETV factors.		
Triennial Actuarial		
Provision of a standard basis for calculating transfer values (TVs), production of transfer factors and pro forma to determine benefits to be granted in respect of TV's (i.e. not modeller) not including advice on assumptions/factors or member test cases.		
Provision of a standard set of actuarial factors e.g. early retirement, commutation, late retirement.		
Ad Hoc Actuarial		
Provide legislative updates (information only not in depth advice).		
Provide papers for trustee's on topical actuarial issues.		
Periodic Actuarial		
Attendance at Trustee meetings in a non-valuation year (assume two half day meetings).		
Triennial Valuation		
Specification of data requirements and liaison with Scheme administrators or other parties over provision of data by electronic means in agreed format.		
Validation checks on membership data to ensure it is adequate for valuation.		
Pre-valuation meeting to deliver advice relating to assumptions.		
Provision of scheme specific assumption modeller.		
Calculation of results, meeting to deliver preliminary results and draft valuation report.		
Advice in relation to term of Recovery Plan, preparation of Recovery Plan and submission to tPR.		
Analysis of surplus to identify factors which have acted in favour of and against the financial strength of the scheme.		
Preparation of Schedule of Contributions and certificate.		
Preparation of other statutory certificates.		
Corporate Actuarial		
Advice on pension and other benefit accounting costs for purposes of FRS17, IAS19 and FAS 87 accounting (assume one set of accounting figures and provision of draft disclosures for one employer).		

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

Non Core Tasks	Y/N	Notes
Ad hoc valuations arising as a result of changes in scheme structure, membership, membership profile or business activities.		
Advice relating to benefit changes, provision of non-guaranteed pension increases, individual member benefit augmentations including reporting on financial implications, additional contributions required, accounting treatment and/or solvency issues		
Advice relating to material changes in staffing levels and reporting on financial implications for members and benefit arrangements.		
Calculations and advice arising in connection with changes in the contracting out status of the scheme or terms of contracting out.		
Provision of certificates other than those provided under the services e.g. Section 67 Certificates. Please specify.		
Actuarial input/comment in relation to Statement of Investment Principles (SIP).		
Liaise with trustees on scheme administration matters as and when required.		
Discussions with tPR in relation to funding plans, incl. particular Recovery Plans, SFS and calculation of Technical Provisions.		
Reporting to tPR of any legislative breaches of which Scheme Actuary is made aware and if appropriate any late payments or underpayments of contributions notified by administrators.		
Detailed advice in relation to the impact on funding and solvency levels of transfer values and the provision of TVs where schemes are not fully funded.		
Detailed advice on alternative bases for the calculation of actuarial factors.		
Advising on terms of any bulk transfers to be paid/received.		