



**KGC associates**

## **KGC's Sixth Actuarial Survey**

January 2016

## FOREWORD

Welcome to the Sixth KGC Actuarial Survey. Firstly we would like to thank all firms who take the time and effort to complete our surveys. The input from a wide spectrum of providers makes for a more informative and useful report.

As with our Administration Survey, we decide after five years, it was time to refresh the survey. We have changed the scenarios in terms of statuses and structure, to reflect today's pension scheme and increased the size of schemes covered.

A new layout, provides concise statistical information at a glance, easy to read and hopefully full of interesting facts.

Highlights in this year's survey includes our review of value for money – that intangible quest the industry is on. As firms are called to provide more and more help with non-core activities, we have also looked at how they charge for these additional services - fixed fee, time cost or perhaps they are already included.

Our investment in providing the survey is only part of the extensive market research we undertake. However we believe it is a vital snapshot on the market place in terms of services and fees schemes can expect to receive. We hope you enjoy reading it.



**Hayley Mudge**  
Report Author

## CONTENTS

<b>Introduction</b>	<b>1</b>
<b>Fees</b>	<b>2</b>
<b>Annual Actuarial</b>	<b>3</b>
<b>Triennial Actuarial</b>	<b>11</b>
<b>Year One</b>	<b>19</b>
<b>Trustee Meetings</b>	<b>17</b>
<b>Core vs. Non-Core</b>	<b>28</b>
<b>Value for Money</b>	<b>31</b>
<b>Summary</b>	<b>32</b>

# INTRODUCTION

## INTRODUCTION

In Q4 2015 19 firms accepted our invitation to participate in the Sixth KGC Actuarial Survey. The survey data was collected via Survey Monkey™ where each firm provided 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 eight different scheme sizes covering 200, 500, 1,000, 2,000, 5,000, 10,000, 15,000 and 20,000 lives.

The main components<sup>1</sup> within an actuarial service are divided into six services these include:

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

## SCENARIO ASSUMPTIONS

Participating firms costed 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 closed to new members, the smaller schemes (200, 500, 1,000 and 2,000) are closed to future accrual with no salary link
- Membership structure:

Scheme Size	Pensioners	Deferred	Active
200, 500 and 1,000	55%	45%	0%
2,000 and 5,000	50%	45%	5%
10,000, 15,000 and 20,000	50%	40%	10%

- One category of member:  
1/60 accrual, LPI pension increases, where there are active members pensionable salary set at renewal on 01/04 as basic salary exclusive of fluctuating emoluments and contracted-out on reference scheme test with a view to surrendering certificate
- GMP reconciliation and data cleanse taking place but progress is slow
- Assume a mixture of trustee meetings both at firm's offices and the client's

<sup>1</sup> Based on experience derived from KGC procurement and benchmarking exercises

## FEES

## FEE ANALYSIS

The results are shown below and are grouped in three sets of graphs where they are compared against the mean fee for 200, 500, 1,000, 2,000, 5,000, 10,000, 15,000 and 20,000 life schemes. Firms were requested to only 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 aspect can be a considerable influence on total cost.

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

- annual actuarial – e.g. annual 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

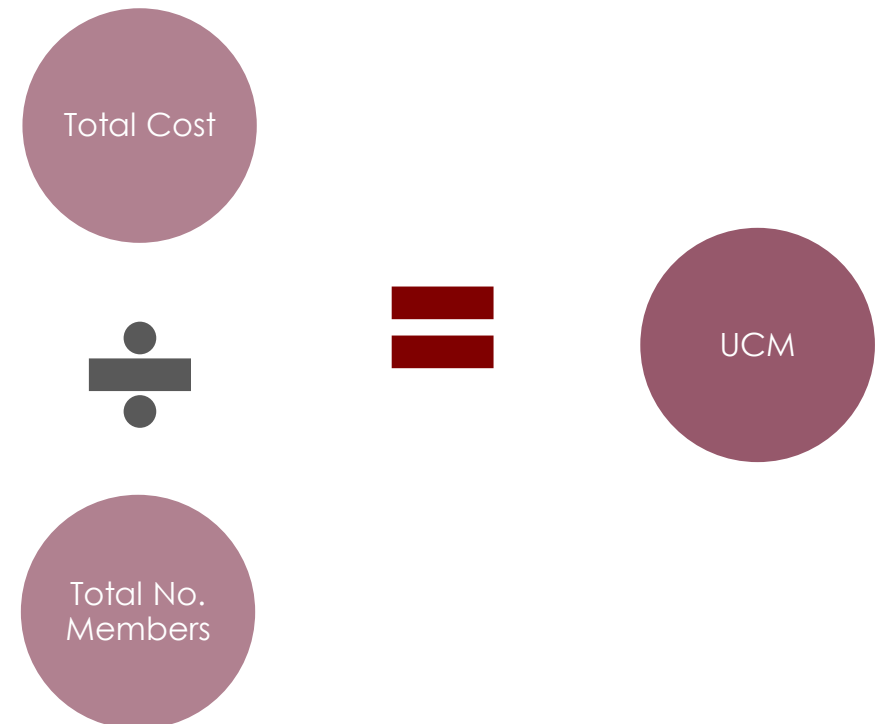
The last set of graphs illustrates a year one cost<sup>2</sup> and includes:

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

<sup>2</sup> 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.

## UNIT COST PER MEMBER

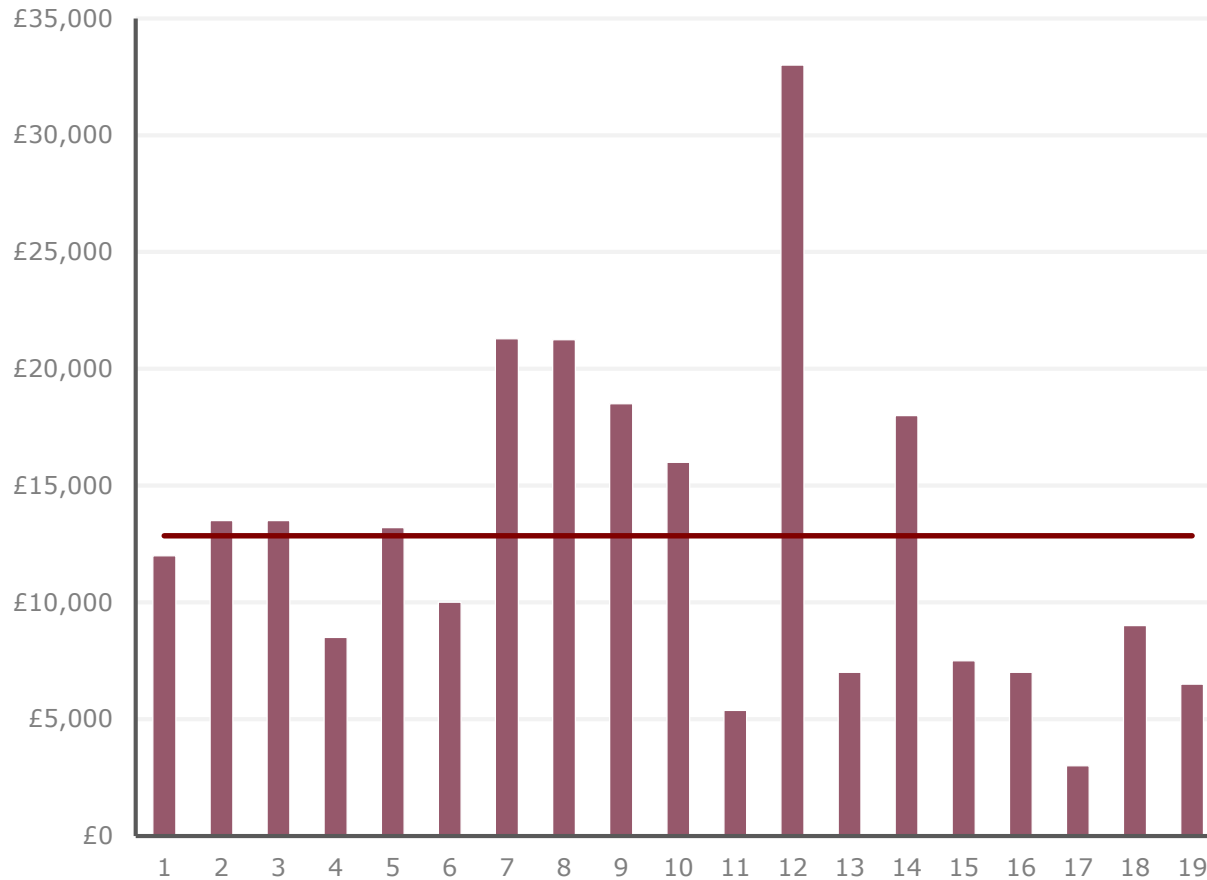
The results for each group also include a Unit Cost per Member (UCM) for the highest, average and lowest fee. This is derived by dividing the total cost by the total number of members.





# ANNUAL ACTUARIAL

### 200 Life Scheme



Most expensive fee **£33,000**

Average fee **£12,847**

Lowest fee **£3,000**

9 firms **↑** than average

10 firms **↓** than average

UCM highest **£165.00**

UCM average **£64.24**

UCM lowest **£15.00**



Most expensive fee **£37,000**

Average fee **£14,188**

Lowest fee **£4,667**

8 firms **↑** than average

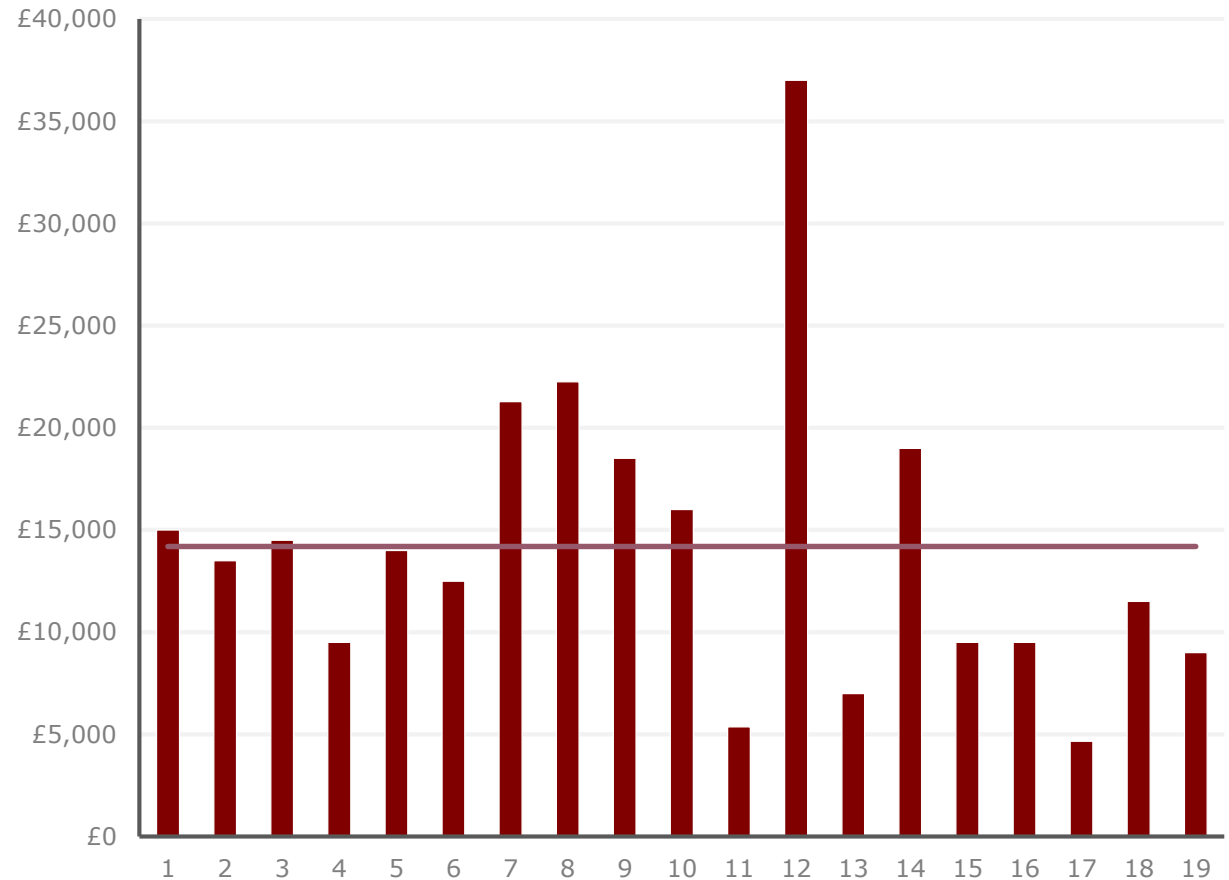
11 firms **↓** than average

UCM highest **£74.00**

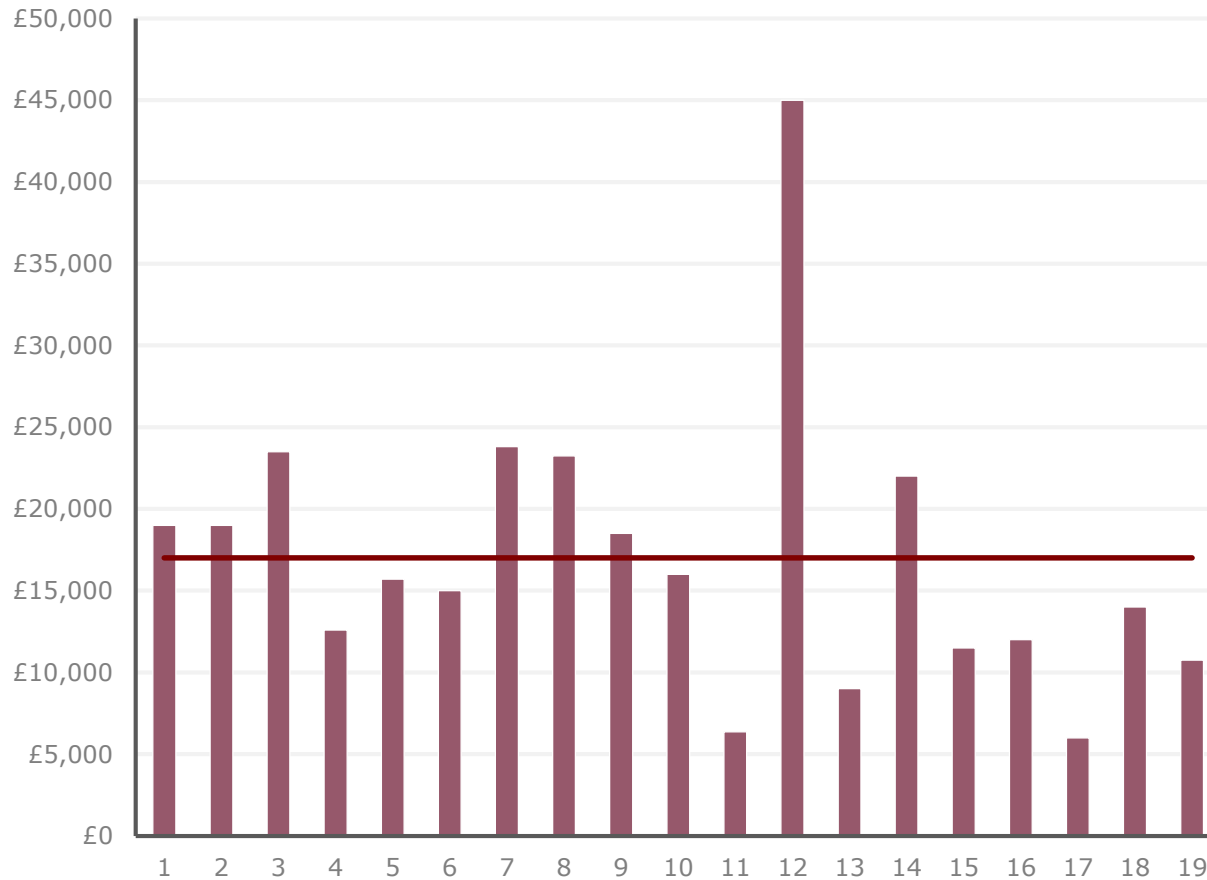
UCM average **£28.38**

UCM lowest **£9.33**

500 Life Scheme



### 1,000 Life Scheme



Most expensive fee **£45,000**

Average fee **£16,999**

Lowest fee **£6,000**

8 firms **↑** than average

11 firms **↓** than average

UCM highest **£45.00**

UCM average **£17.00**

UCM lowest **£6.00**

Most expensive fee **£56,000**

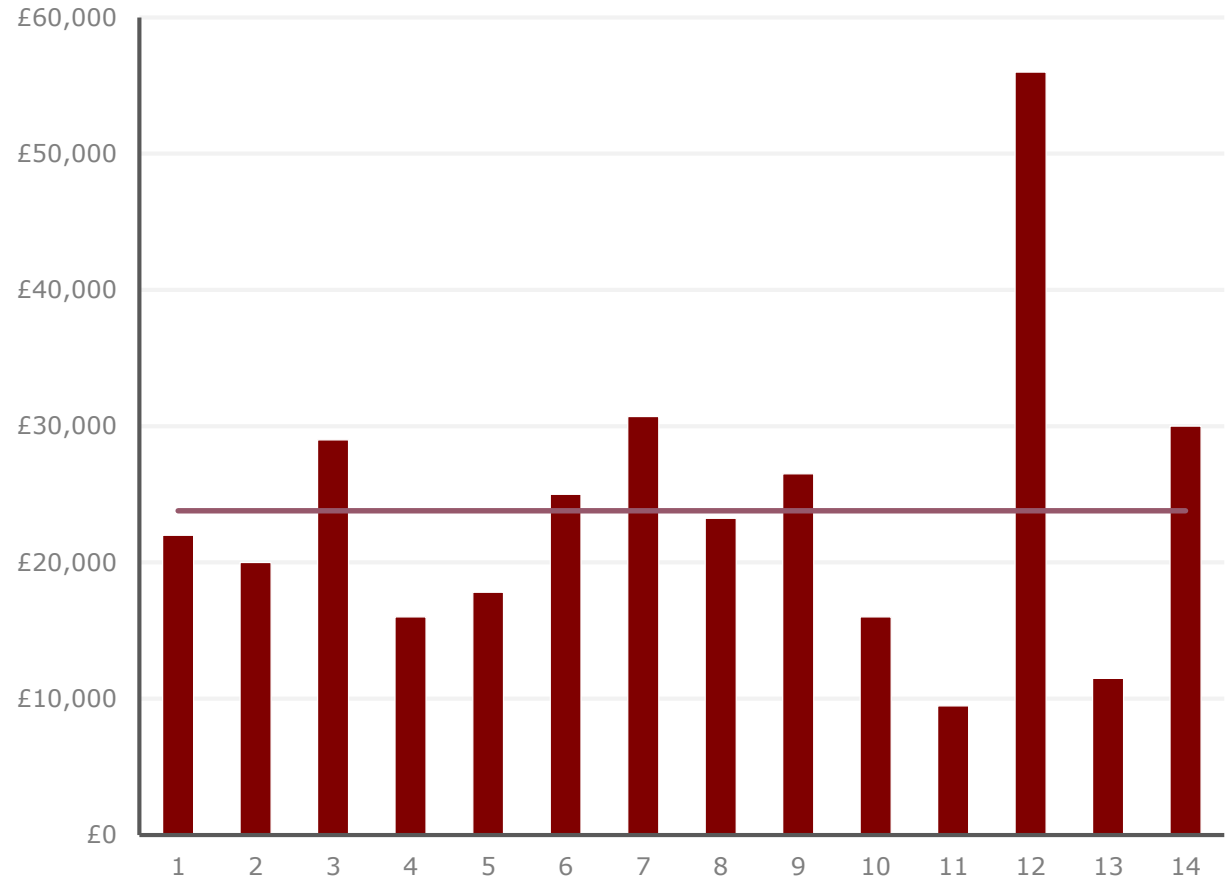
Average fee **£23,801**

Lowest fee **£9,460**

6 firms **↑** than average

8 firms **↓** than average

**2,000 Life Scheme**

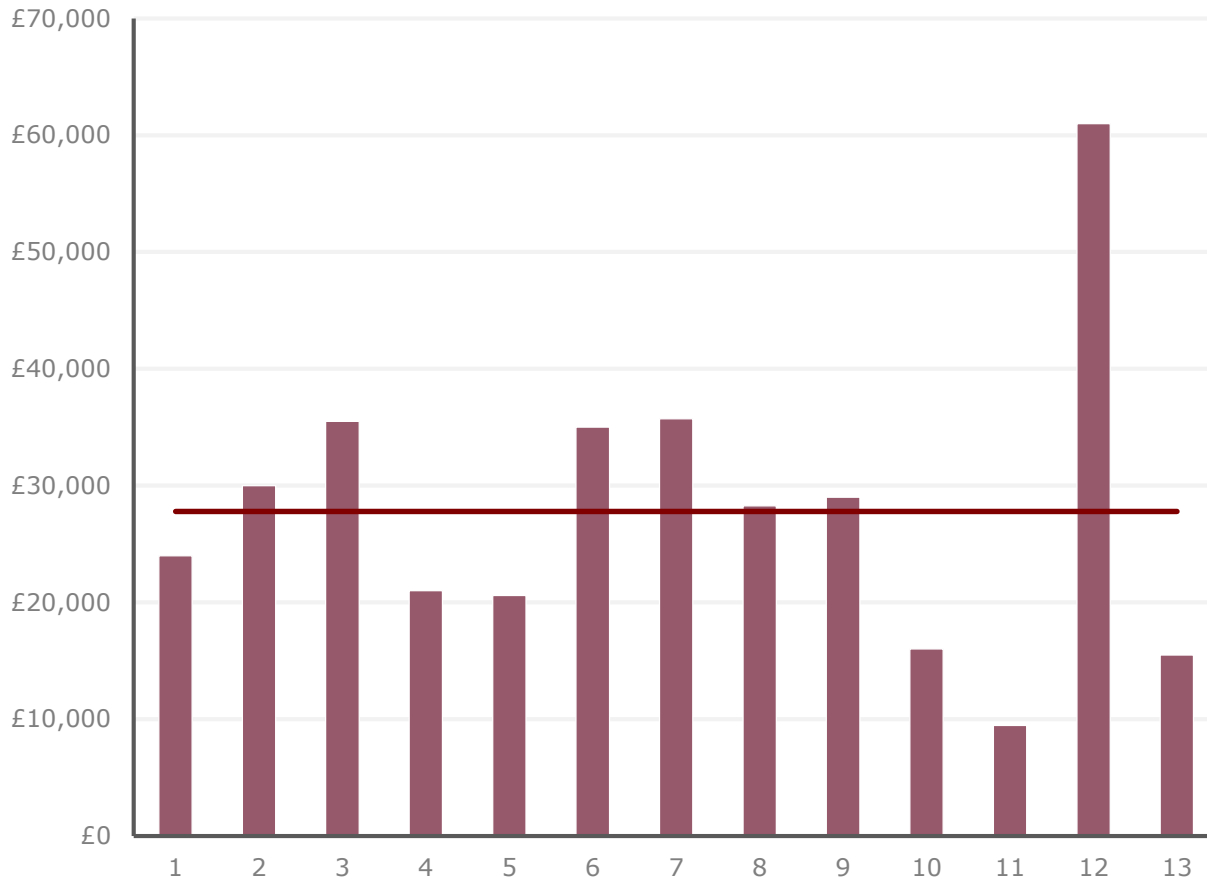


UCM highest **£28.00**

UCM average **£11.90**

UCM lowest **£4.73**

### 5,000 Life Scheme



Most expensive fee **£61,000**

Average fee **£27,772**

Lowest fee **£9,460**

7 firms **↑** than average

6 firms **↓** than average

UCM highest **£12.20**

UCM average **£5.55**

UCM lowest **£1.89**

Most expensive fee **£66,000**

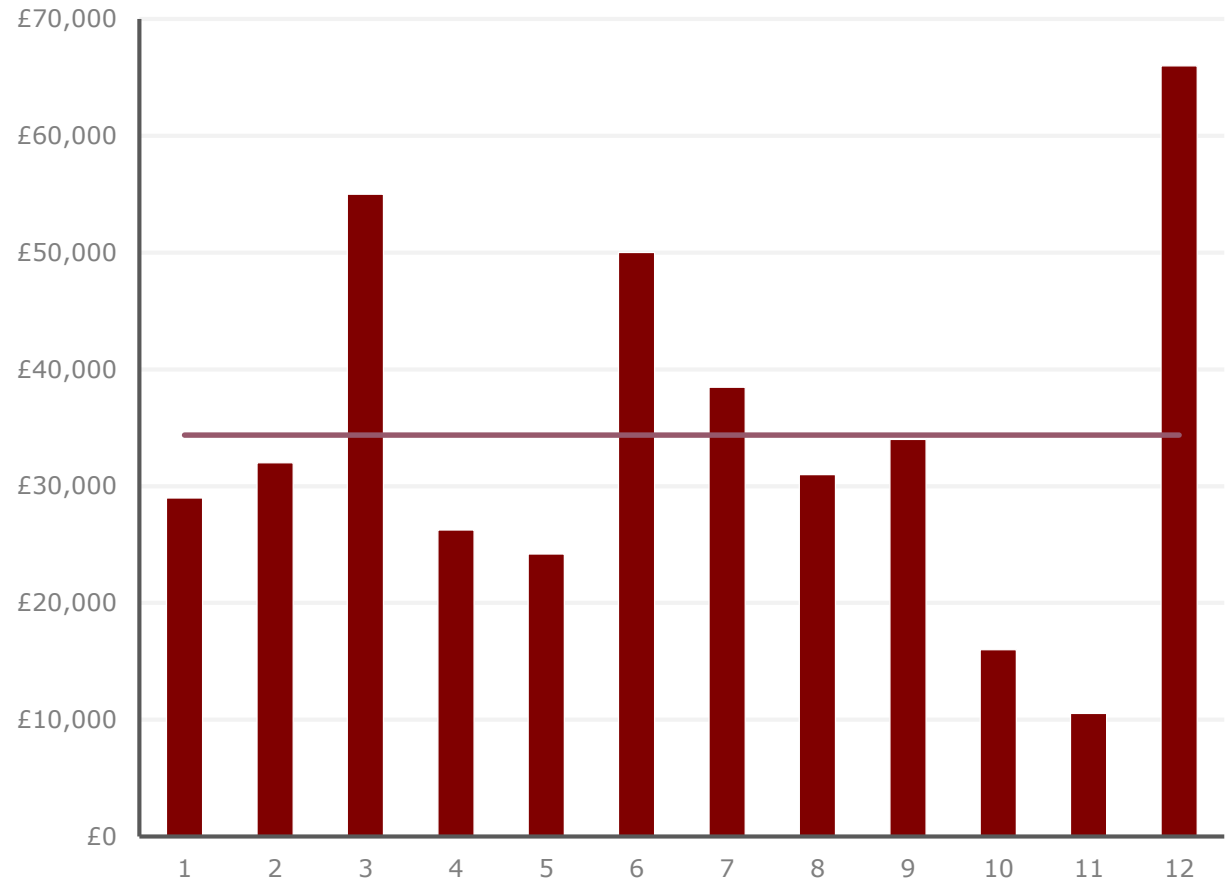
Average fee **£34,372**

Lowest fee **£10,550**

4 firms ↑ than average

8 firms ↓ than average

**10,000 Life Scheme**

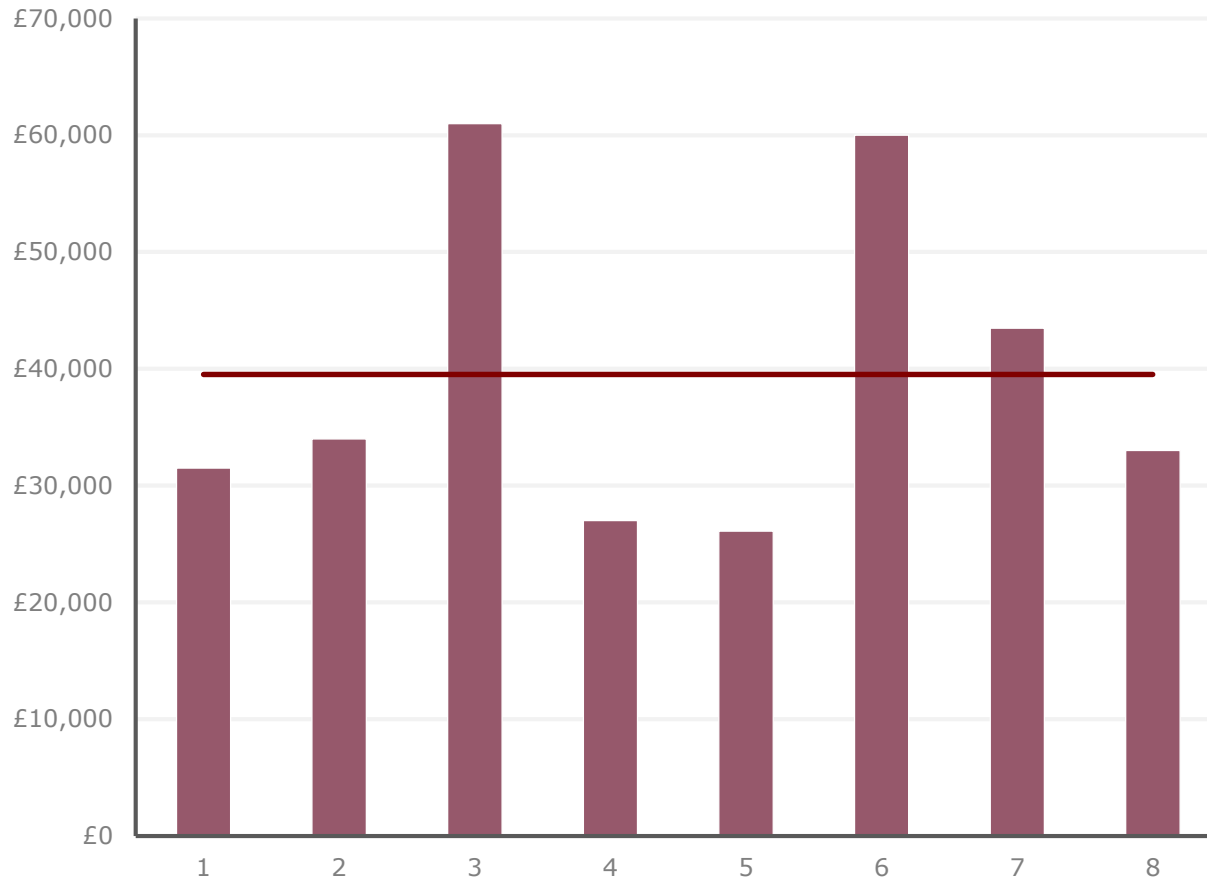


UCM highest **£6.60**

UCM average **£3.44**

UCM lowest **£1.06**

### 15,000 Life Scheme



Most expensive fee **£61,000**

Average fee **£39,510**

Lowest fee **£26,100**

3 firms **↑** than average

5 firms **↓** than average

UCM highest **£4.07**

UCM average **£2.63**

UCM lowest **£1.74**

Most expensive fee **£75,000**

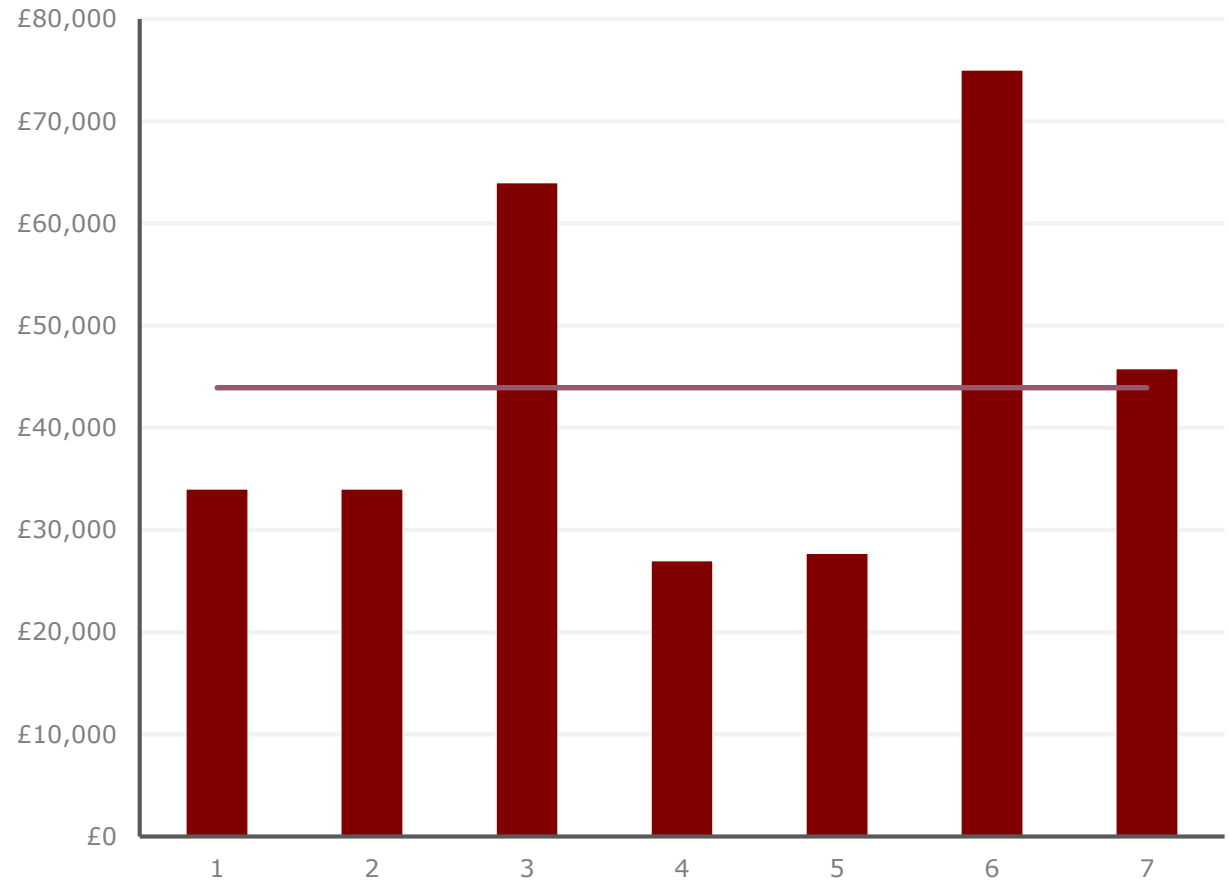
Average fee **£43,926**

Lowest fee **£27,000**

3 firms **↑** than average

4 firms **↓** than average

**20,000 Life Scheme**



UCM highest **£3.75**

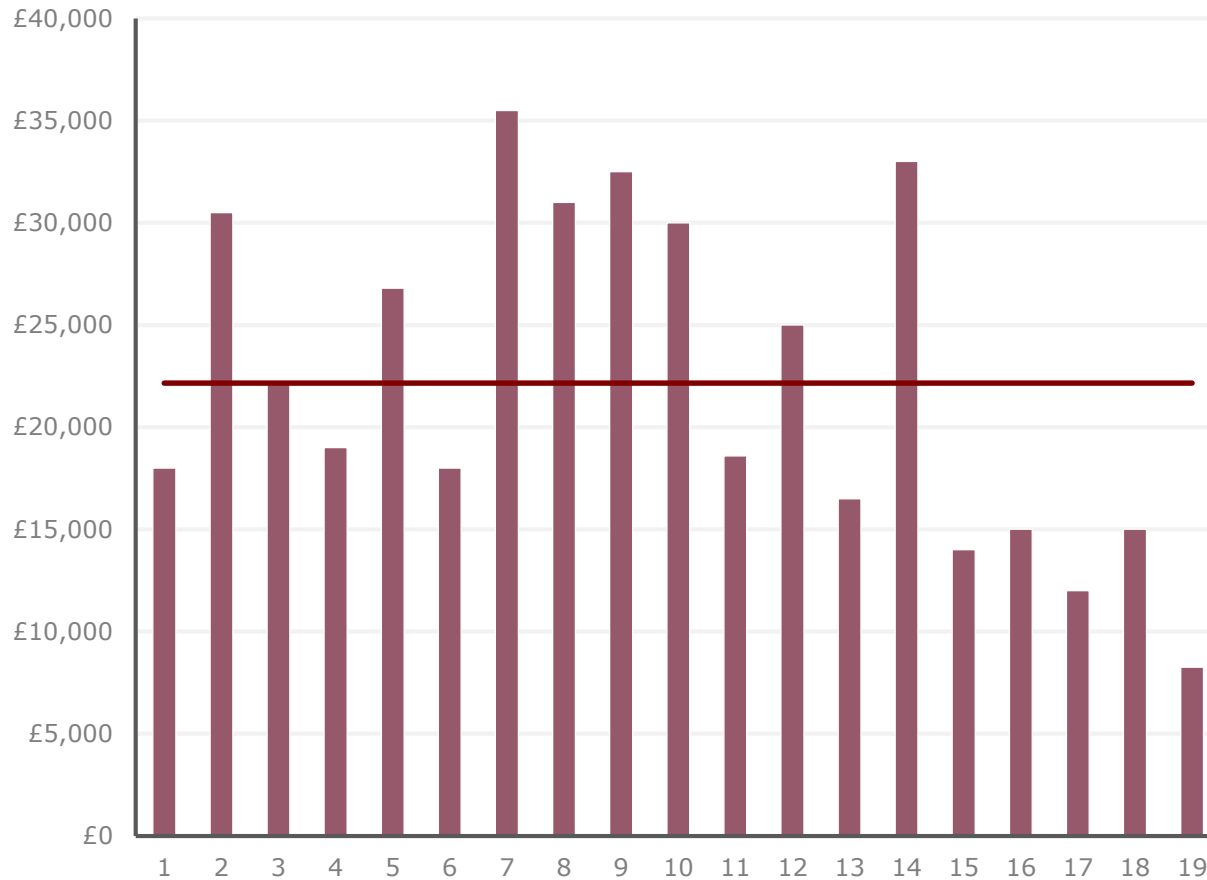
UCM average **£2.20**

UCM lowest **£1.35**

## TRIENNIAL ACTUARIAL



### 200 Life Scheme



Most expensive fee **£35,500**

Average fee **£22,152**

Lowest fee **£8,250**

9 firms  than average

10 firms  than average

UCM highest **£177.50**

UCM average **£110.76**

UCM lowest **£41.25**

Most expensive fee **£39,400**

Average fee **£25,226**

Lowest fee **£10,000**

8 firms ↑ than average

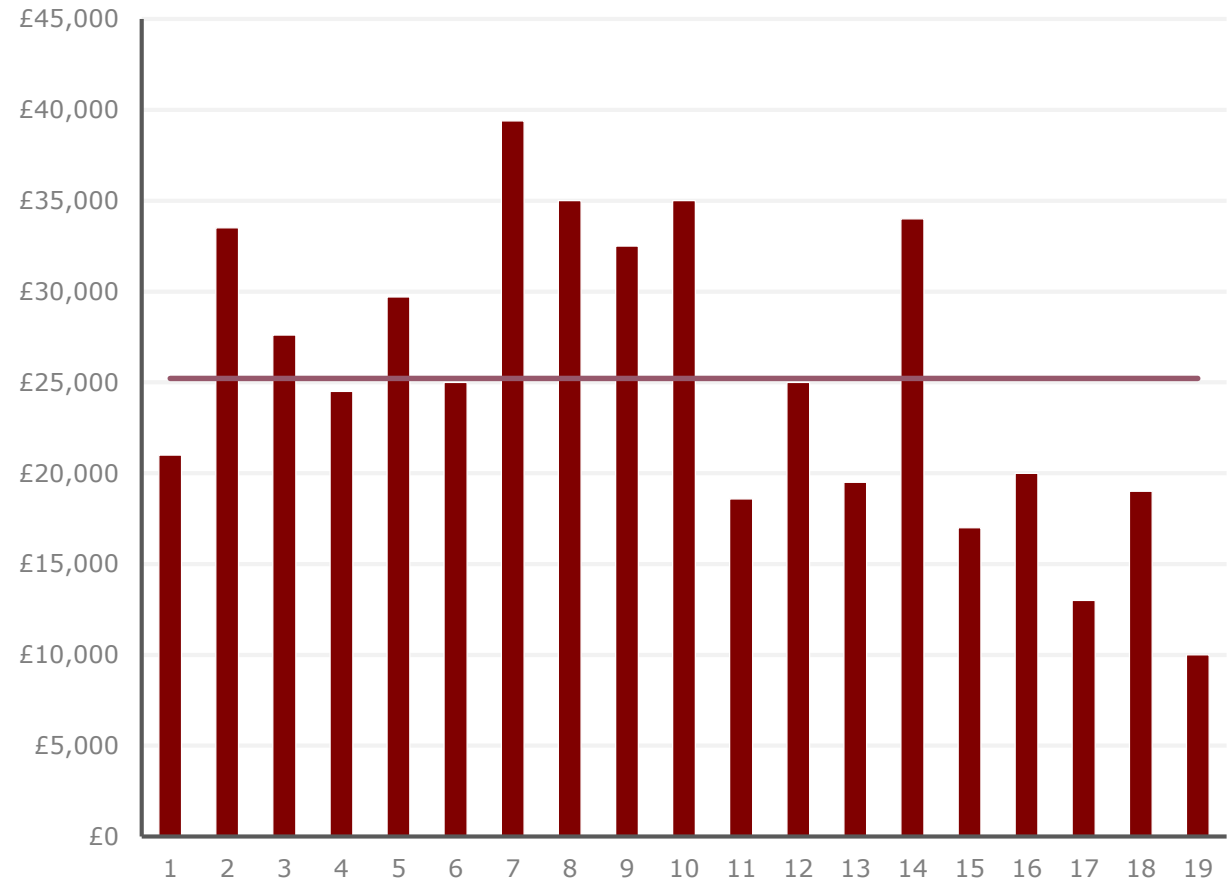
11 firms ↓ than average

UCM highest **£78.80**

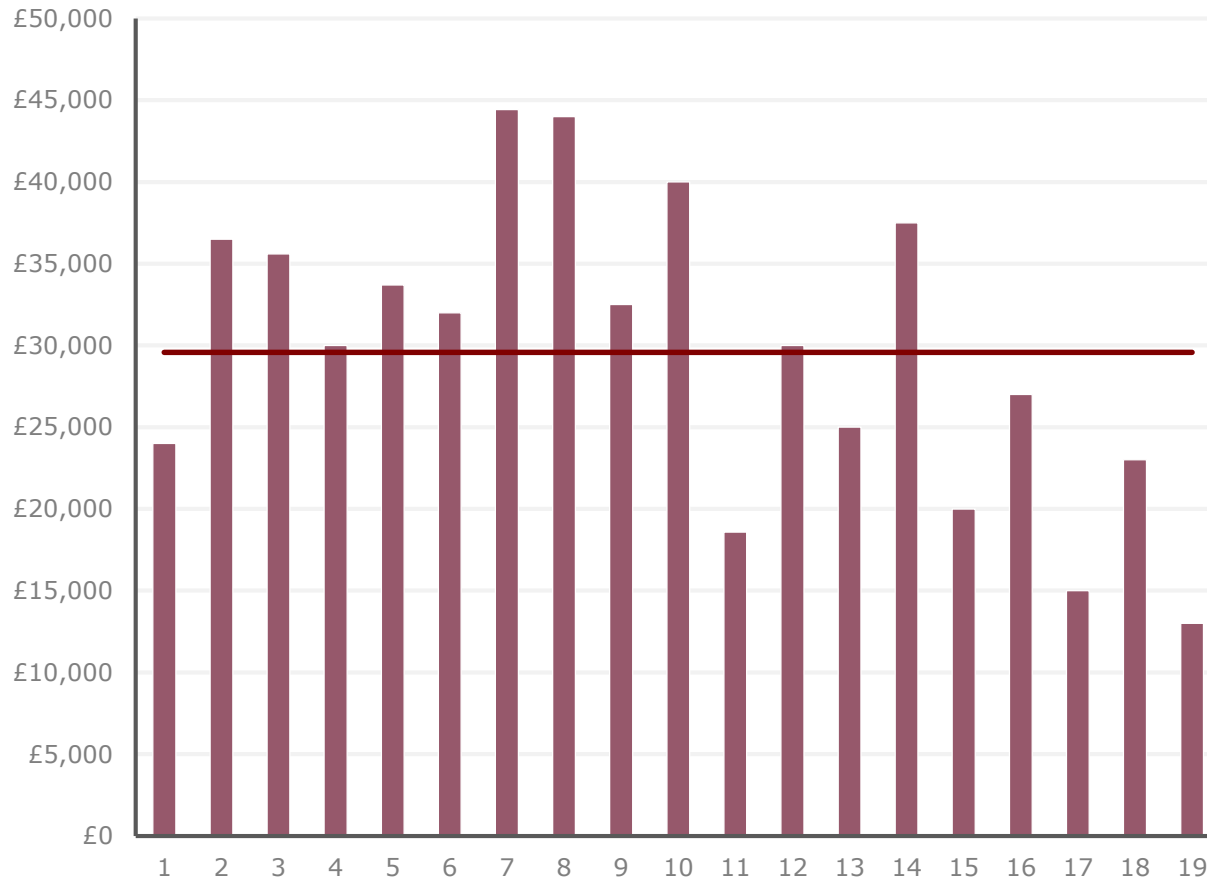
UCM average **£50.45**

UCM lowest **£20.00**

500 Life Scheme



### 1,000 Life Scheme



Most expensive fee **£44,430**

Average fee **£29,569**

Lowest fee **£13,000**

11 firms  than average

8 firms  than average

UCM highest **£44.43**

UCM average **£29.57**

UCM lowest **£13.00**

Most expensive fee **£47,000**

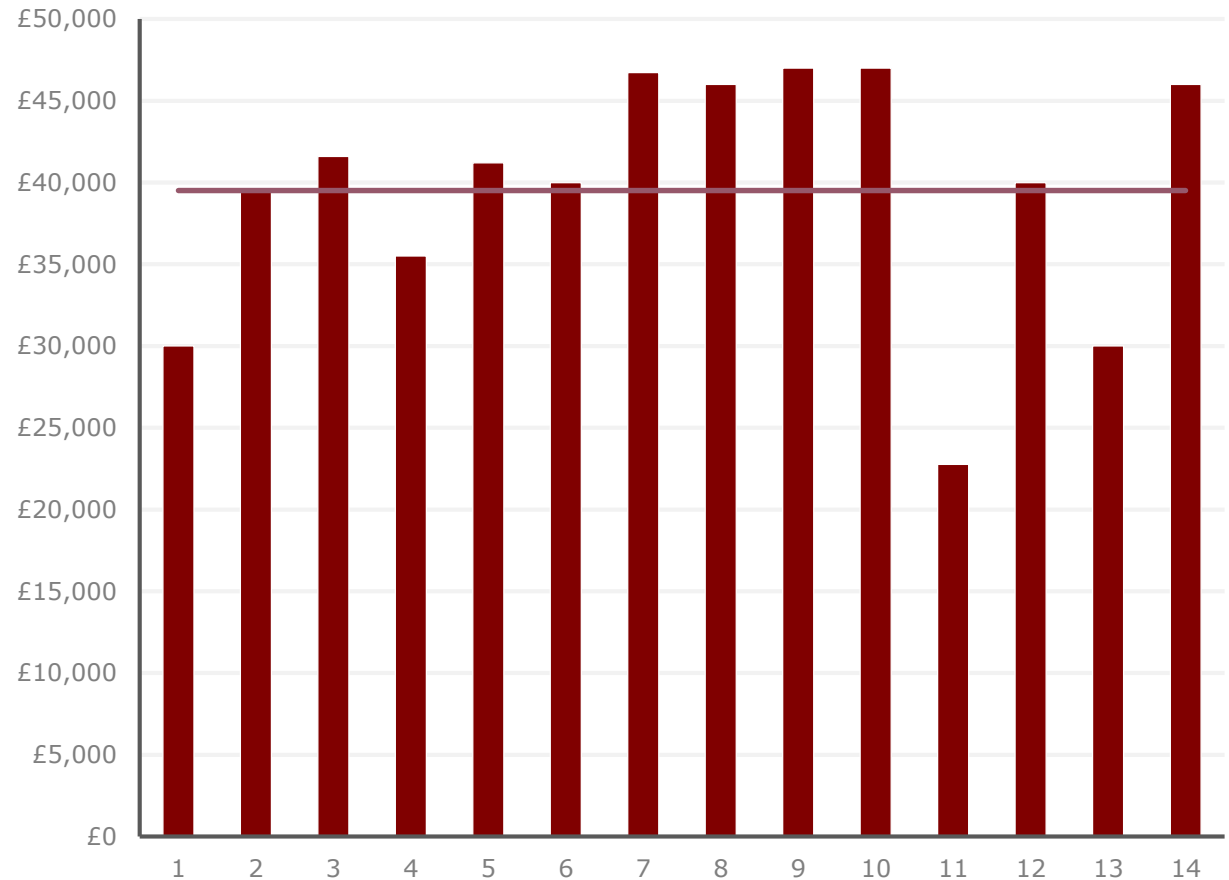
Average fee **£39,521**

Lowest fee **£22,770**

9 firms ↑ than average

5 firms ↓ than average

2,000 Life Scheme

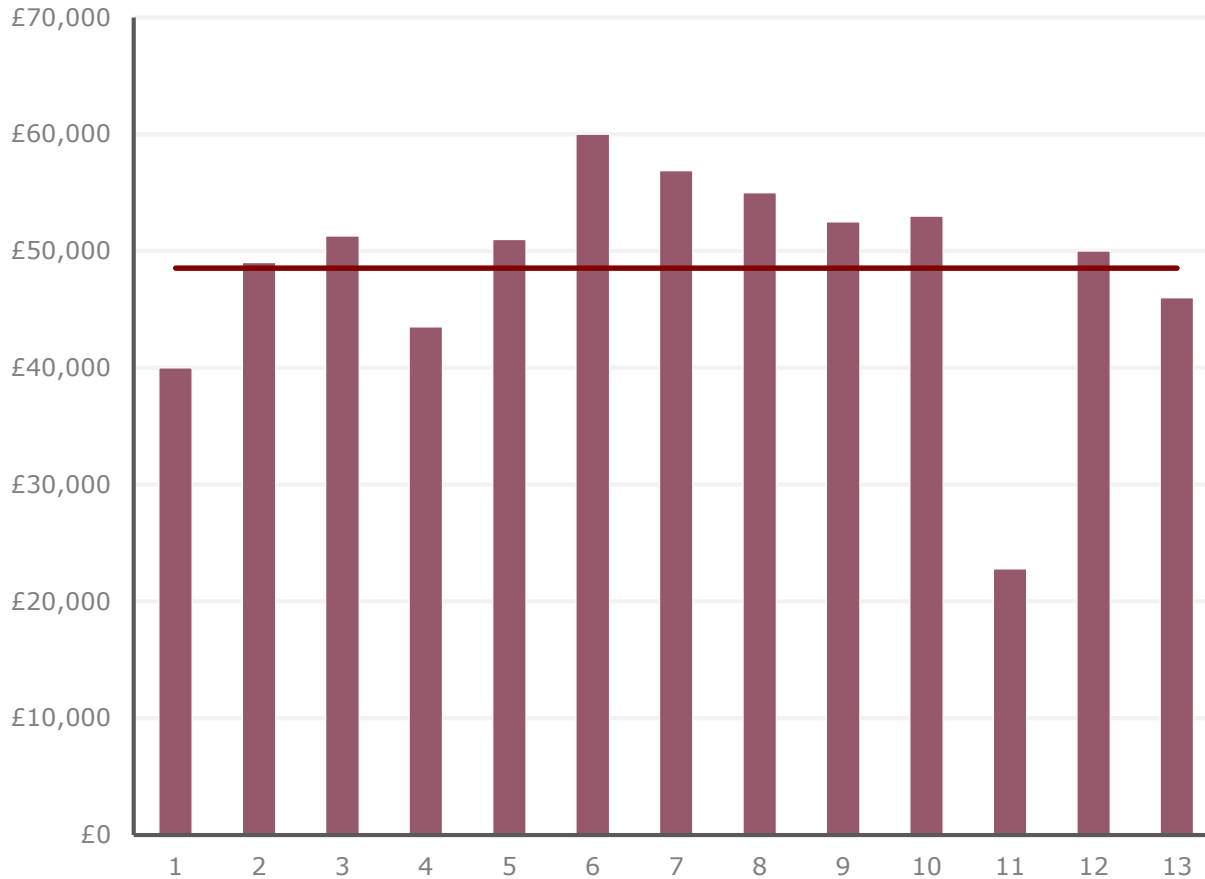


UCM highest **£23.50**

UCM average **£19.76**

UCM lowest **£11.39**

### 5,000 Life Scheme



Most expensive fee **£60,000**

Average fee **£48,535**

Lowest fee **£22,770**

9 firms  than average

4 firms  than average

UCM highest **£12.00**

UCM average **£9.71**

UCM lowest **£4.55**

Most expensive fee **£90,000**

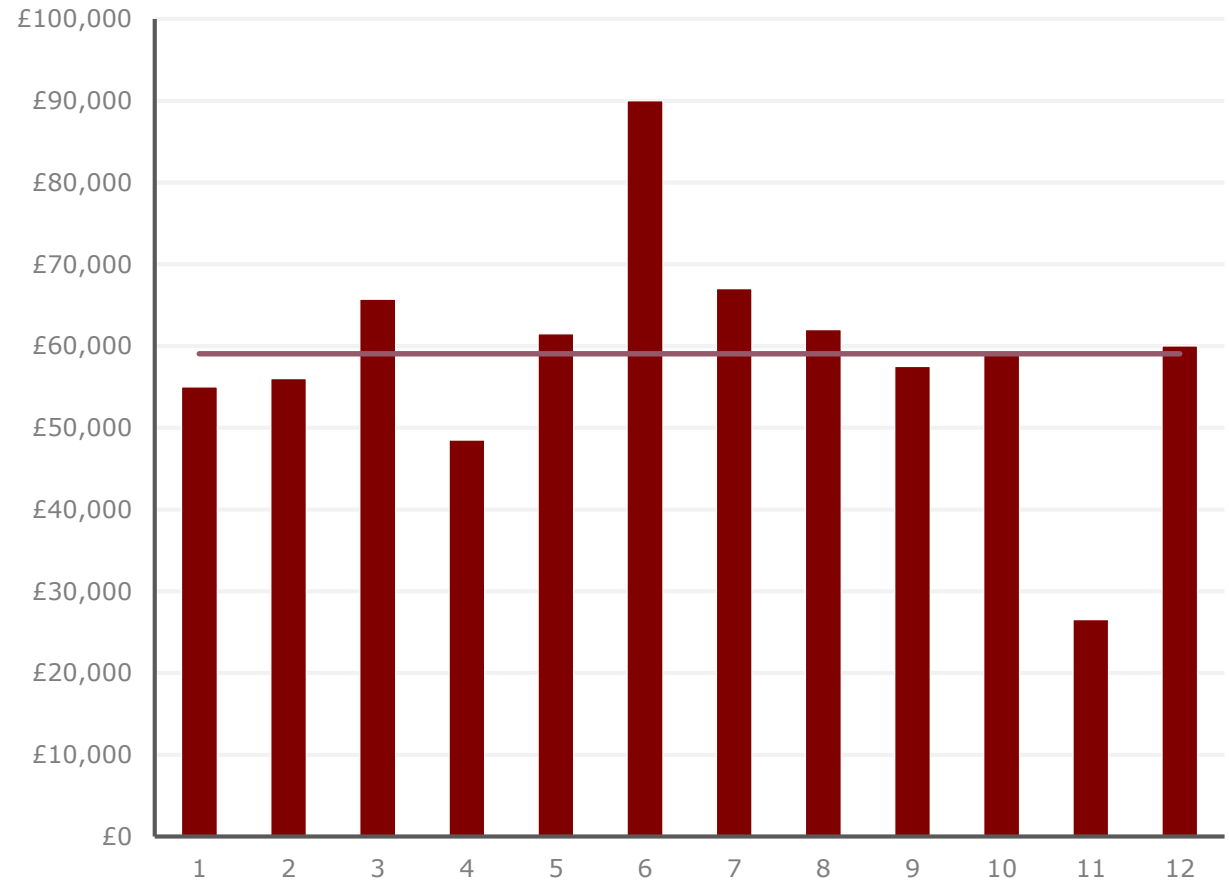
Average fee **£59,068**

Lowest fee **£26,530**

6 firms **↑** than average

6 firms **↓** than average

**10,000 Life Scheme**

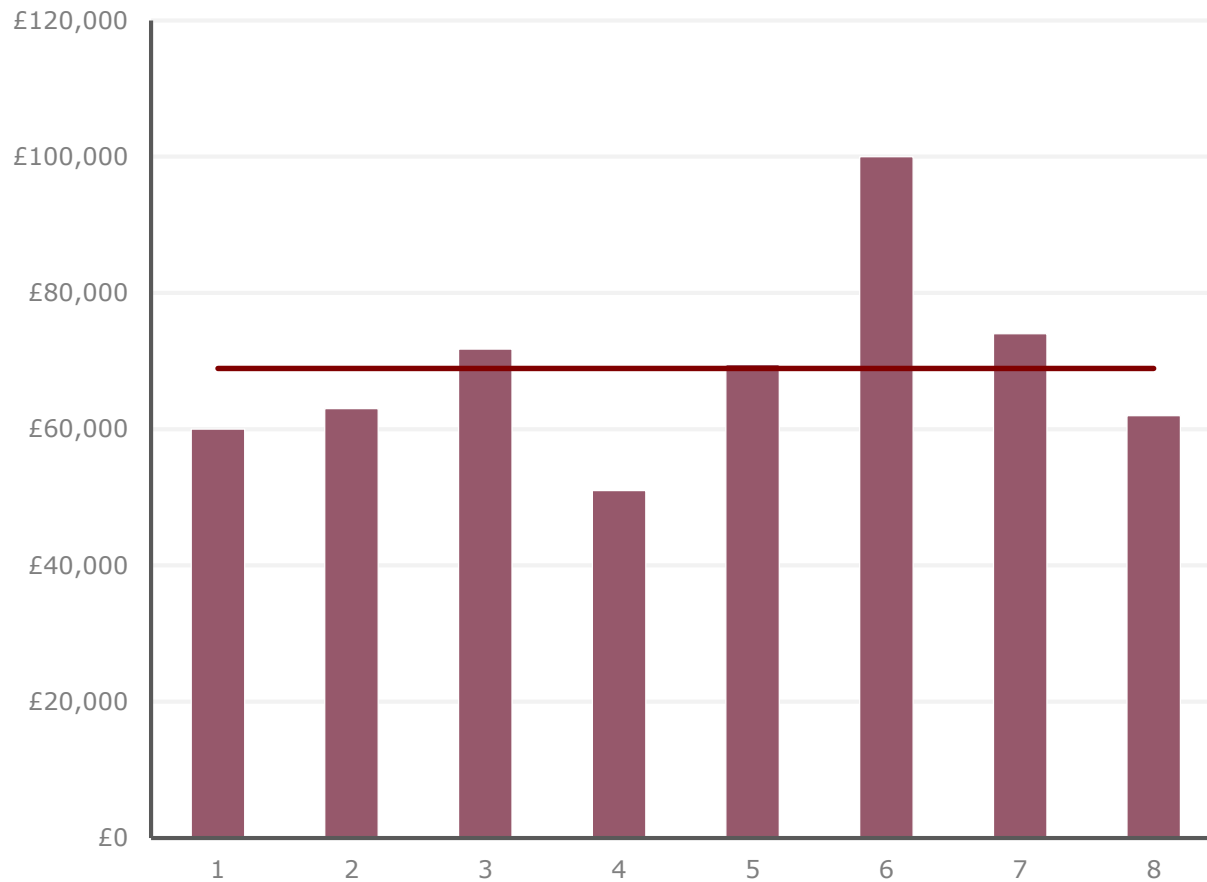


UCM highest **£9.00**

UCM average **£5.91**

UCM lowest **£2.65**

### 15,000 Life Scheme



Most expensive fee **£100,000**

Average fee **£68,910**

Lowest fee **£51,000**

4 firms  than average

4 firms  than average

UCM highest **£6.67**

UCM average **£4.59**

UCM lowest **£3.40**

Most expensive fee **£120,000**

Average fee **£76,340**

Lowest fee **£53,000**

2 firms **↑** than average

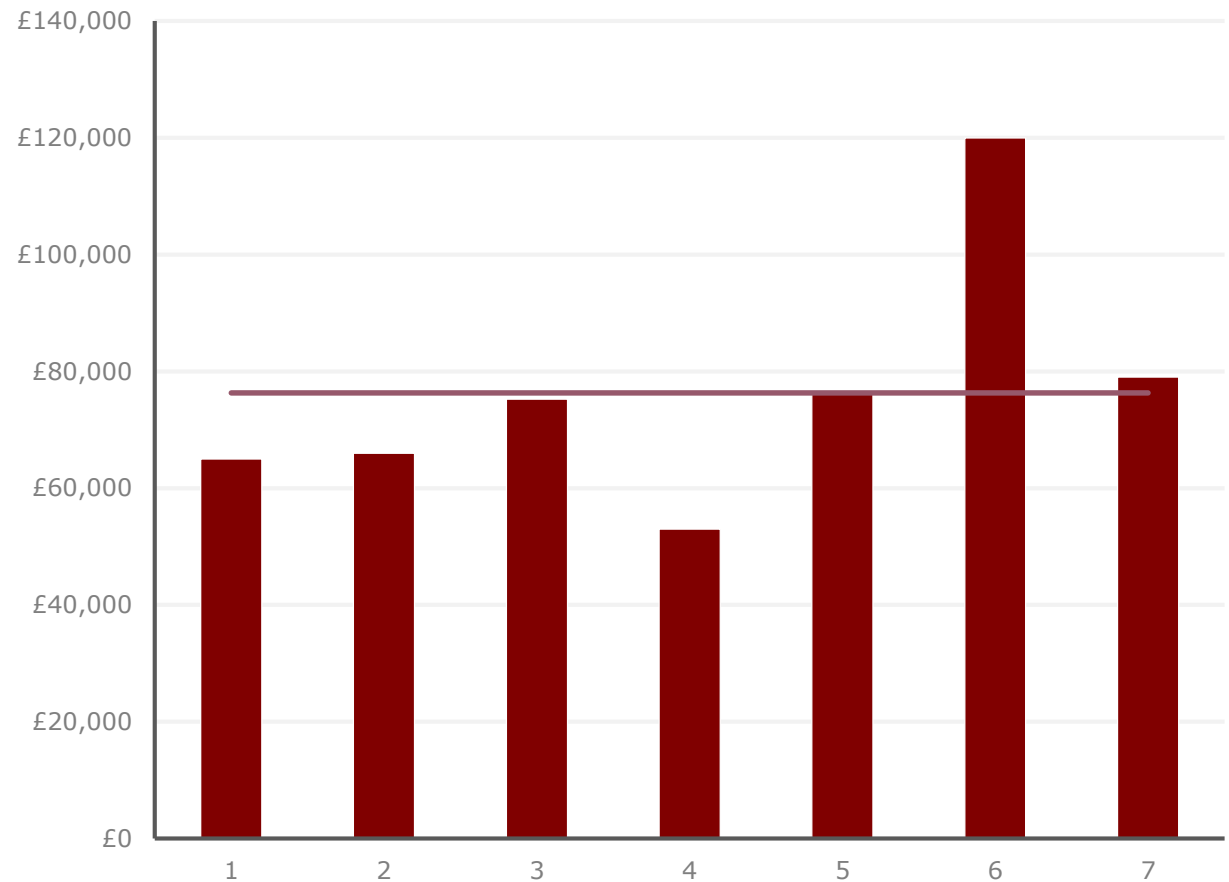
5 firms **↓** than average

UCM highest **£6.00**

UCM average **£3.82**

UCM lowest **£2.65**

**20,000 Life Scheme**

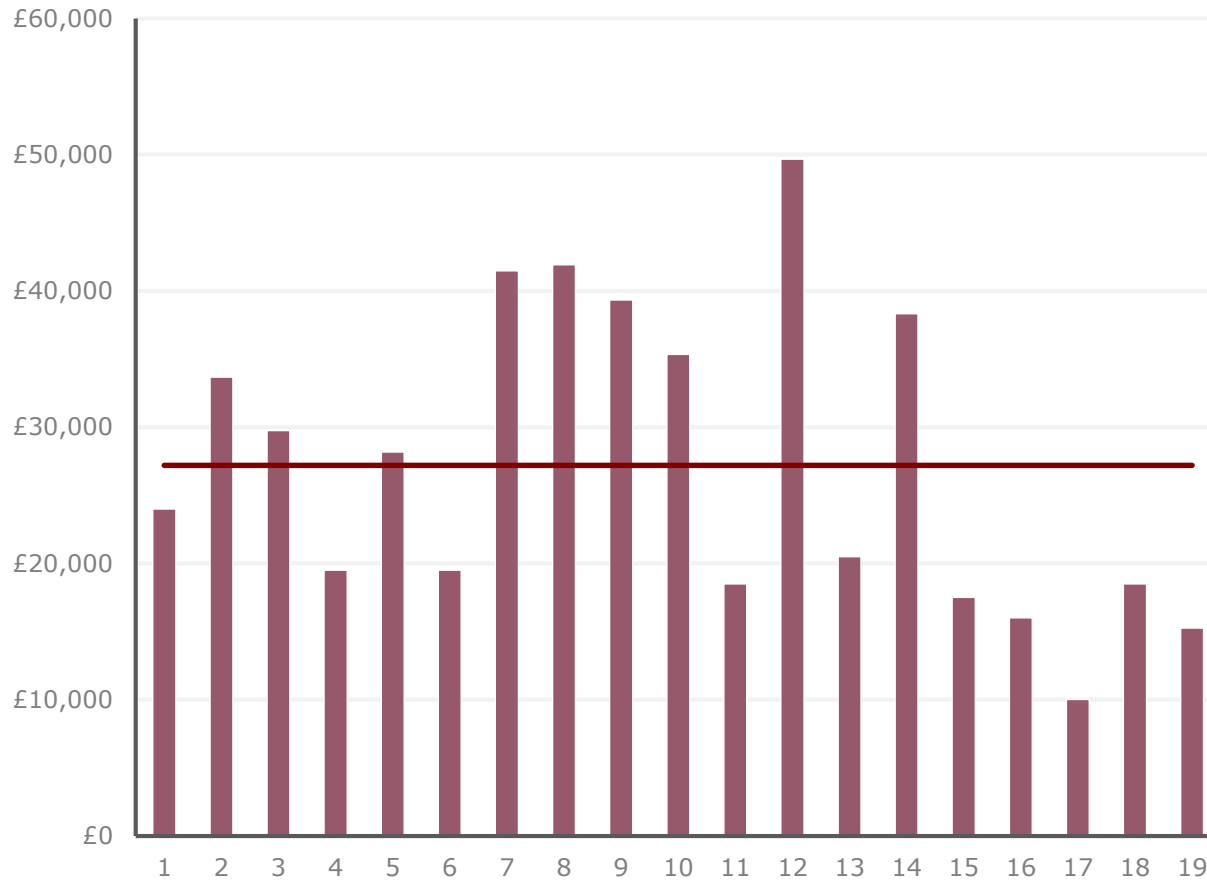






**YEAR ONE**

### 200 Life Scheme



Most expensive fee **£49,667**

Average fee **£27,204**

Lowest fee **£10,000**

9 firms  than average

10 firms  than average

UCM highest **£248.33**

UCM average **£136.02**

UCM lowest **£50.00**

Most expensive fee **£55,667**

Average fee **£30,573**

Lowest fee **£12,000**

9 firms ↑ than average

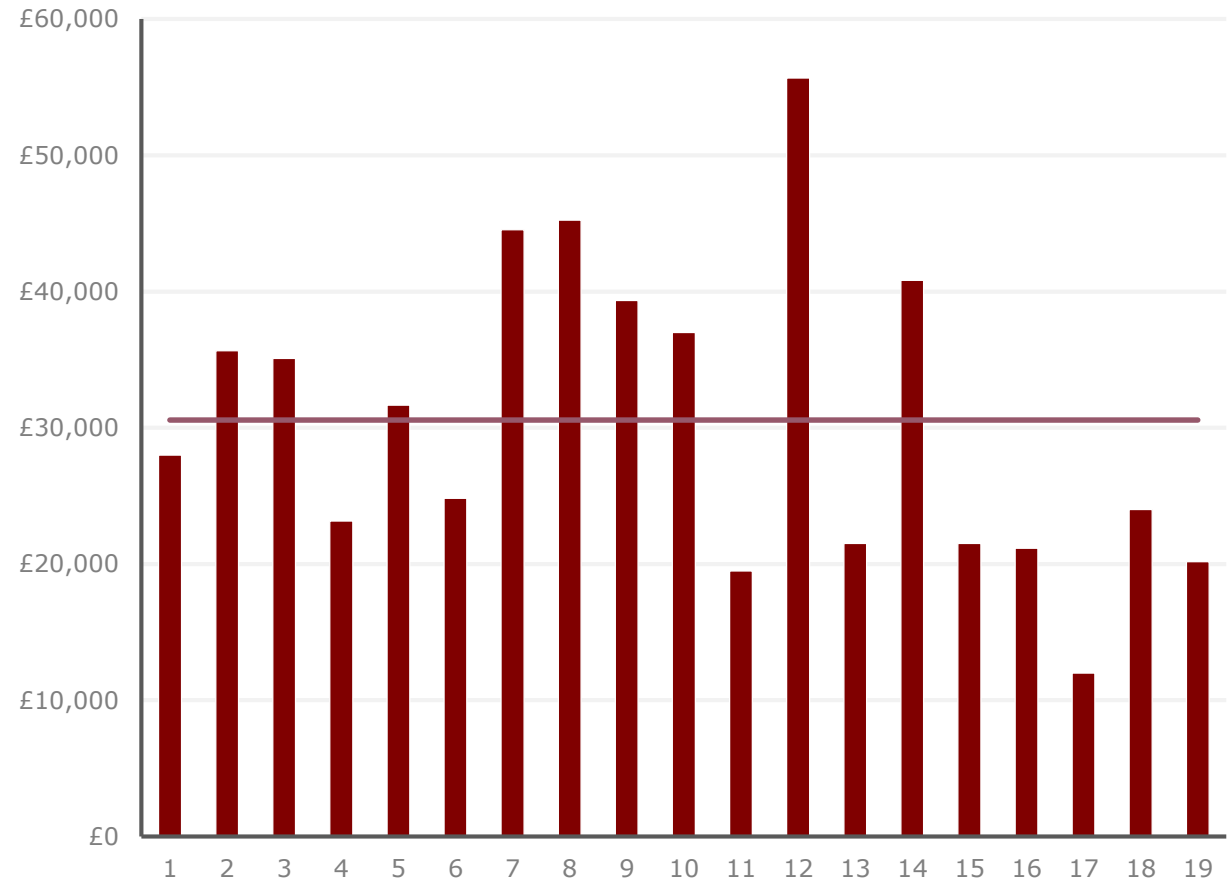
10 firms ↓ than average

UCM highest **£111.33**

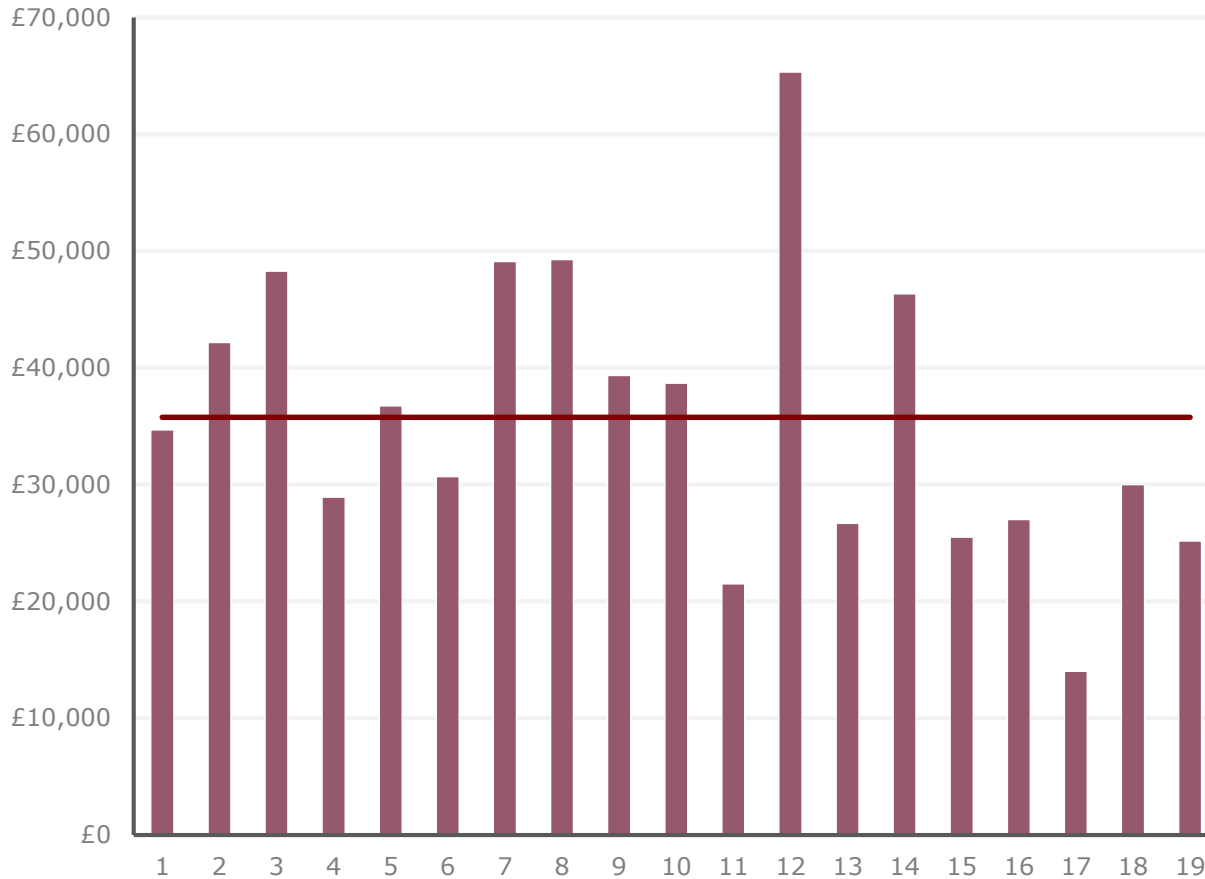
UCM average **£61.15**

UCM lowest **£24.00**

500 Life Scheme



### 1,000 Life Scheme



Most expensive fee **£65,333**

Average fee **£35,751**

Lowest fee **£14,000**

9 firms **↑** than average

10 firms **↓** than average

UCM highest **£65.33**

UCM average **£35.75**

UCM lowest **£14.00**

Most expensive fee **£82,667**

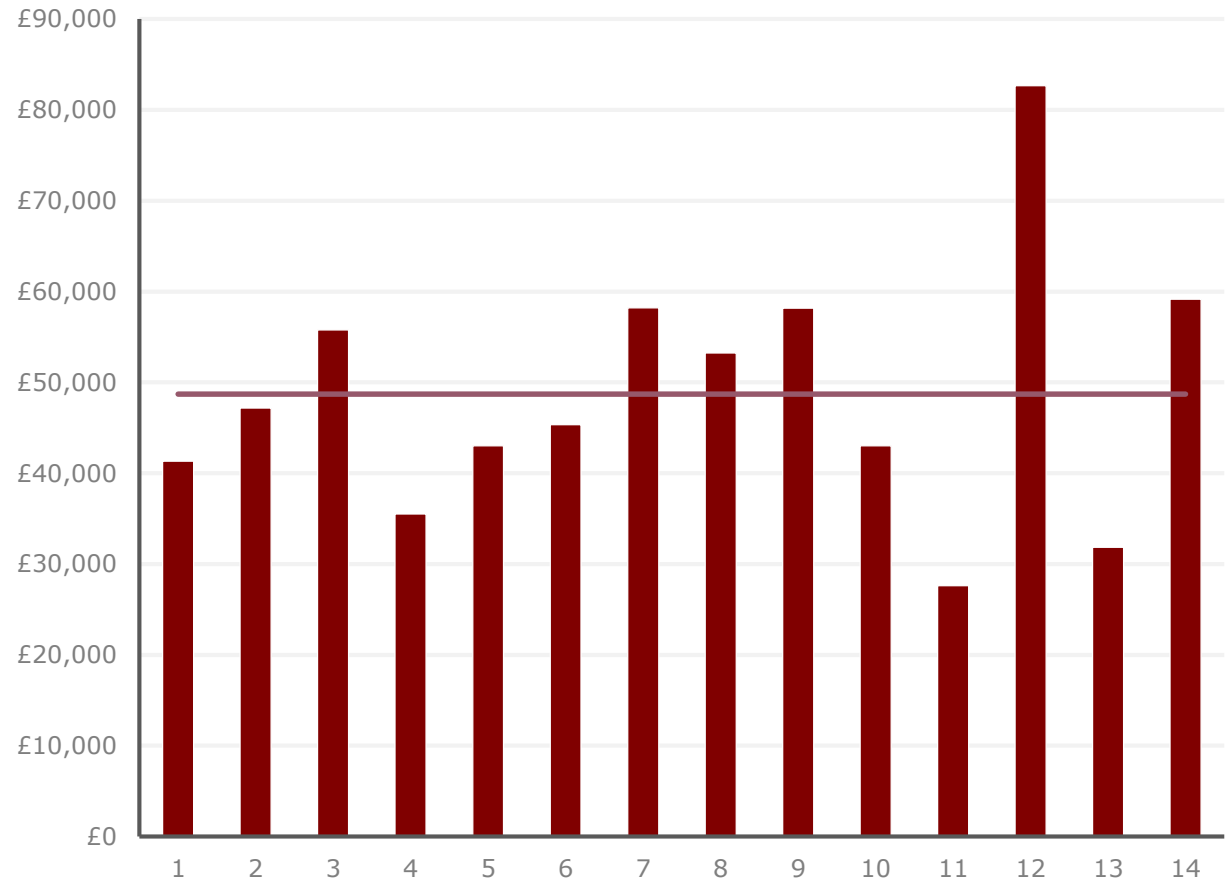
Average fee **£48,715**

Lowest fee **£27,617**

6 firms ↑ than average

8 firms ↓ than average

**2,000 Life Scheme**

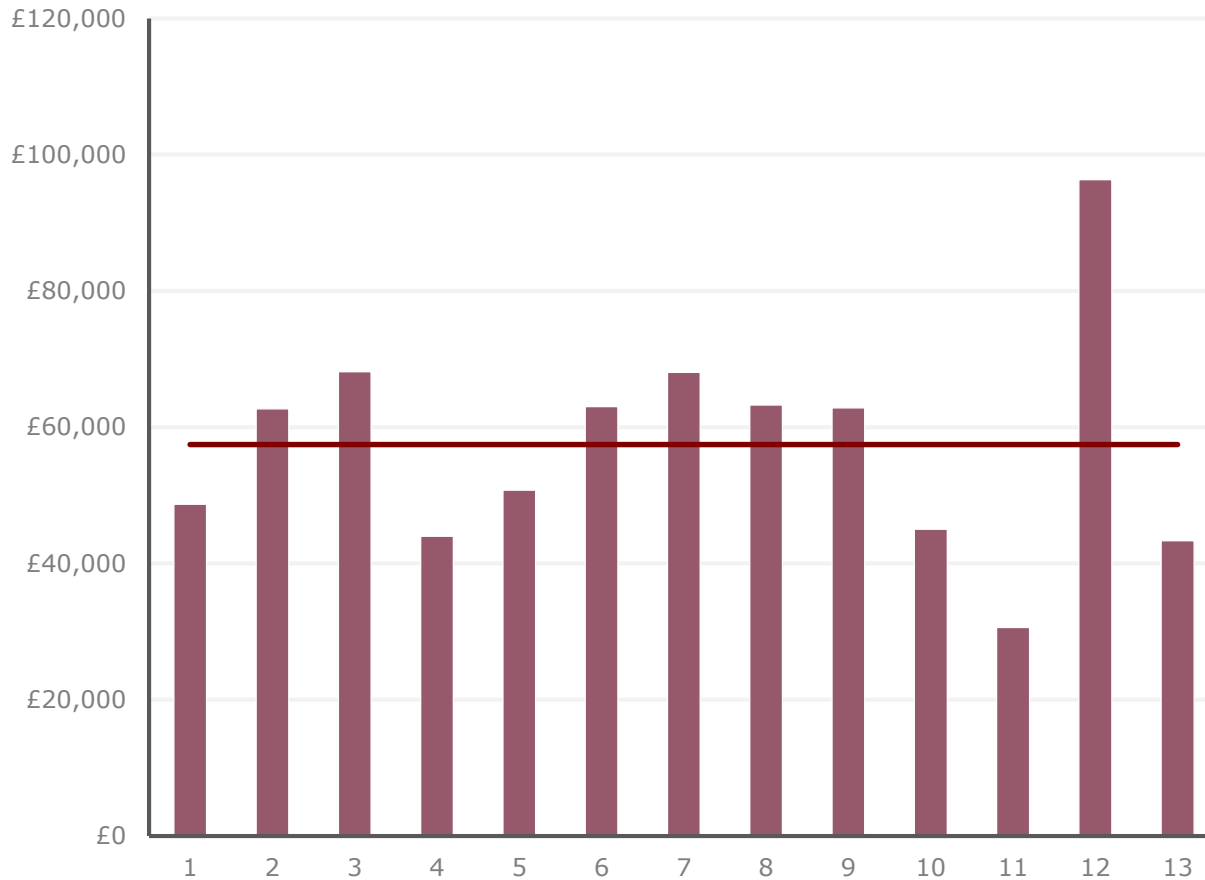


UCM highest **£41.33**

UCM average **£24.36**

UCM lowest **£13.81**

### 5,000 Life Scheme



Most expensive fee **£96,333**

Average fee **£57,433**

Lowest fee **£30,617**

7 firms **↑** than average

6 firms **↓** than average

UCM highest **£19.27**

UCM average **£11.49**

UCM lowest **£6.12**

Most expensive fee **£107,667**

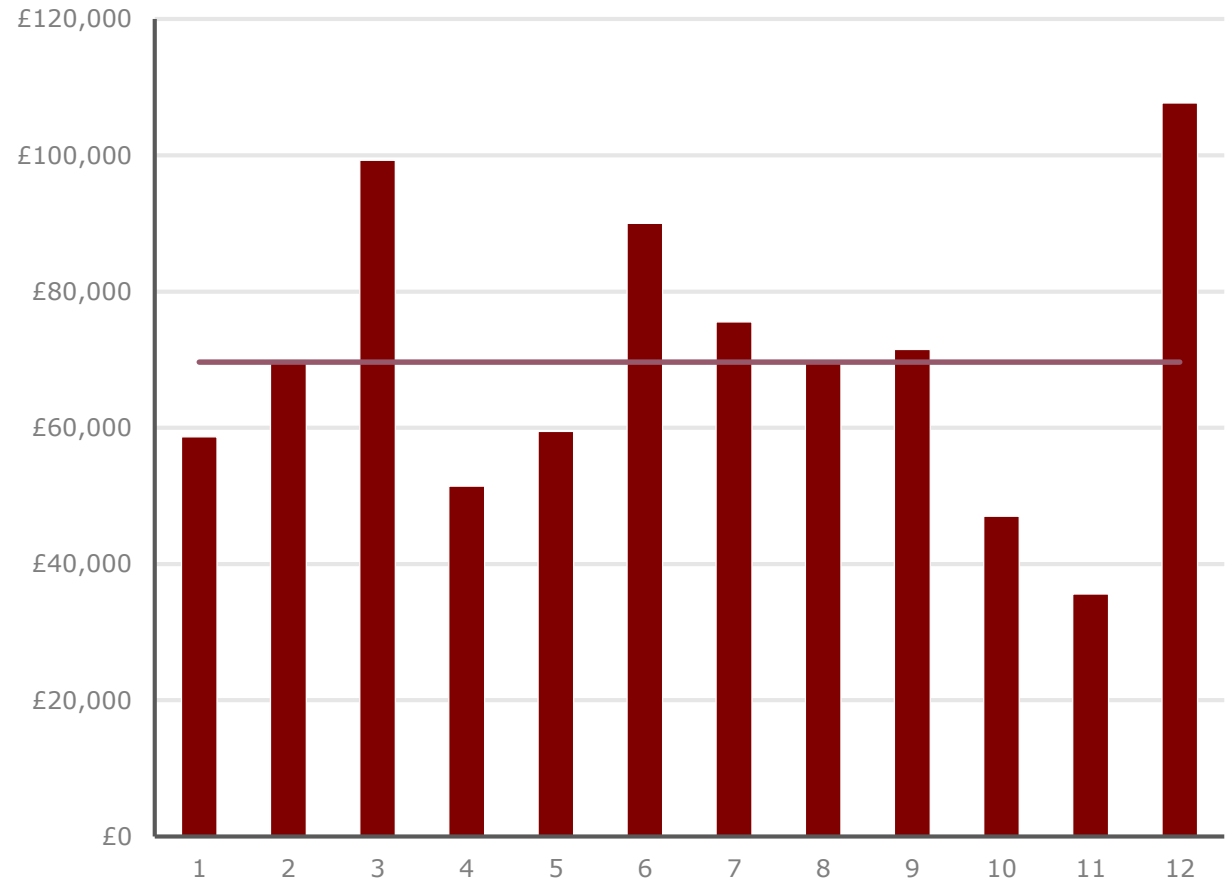
Average fee **£69,648**

Lowest fee **£35,607**

7 firms ↑ than average

5 firms ↓ than average

**10,000 Life Scheme**

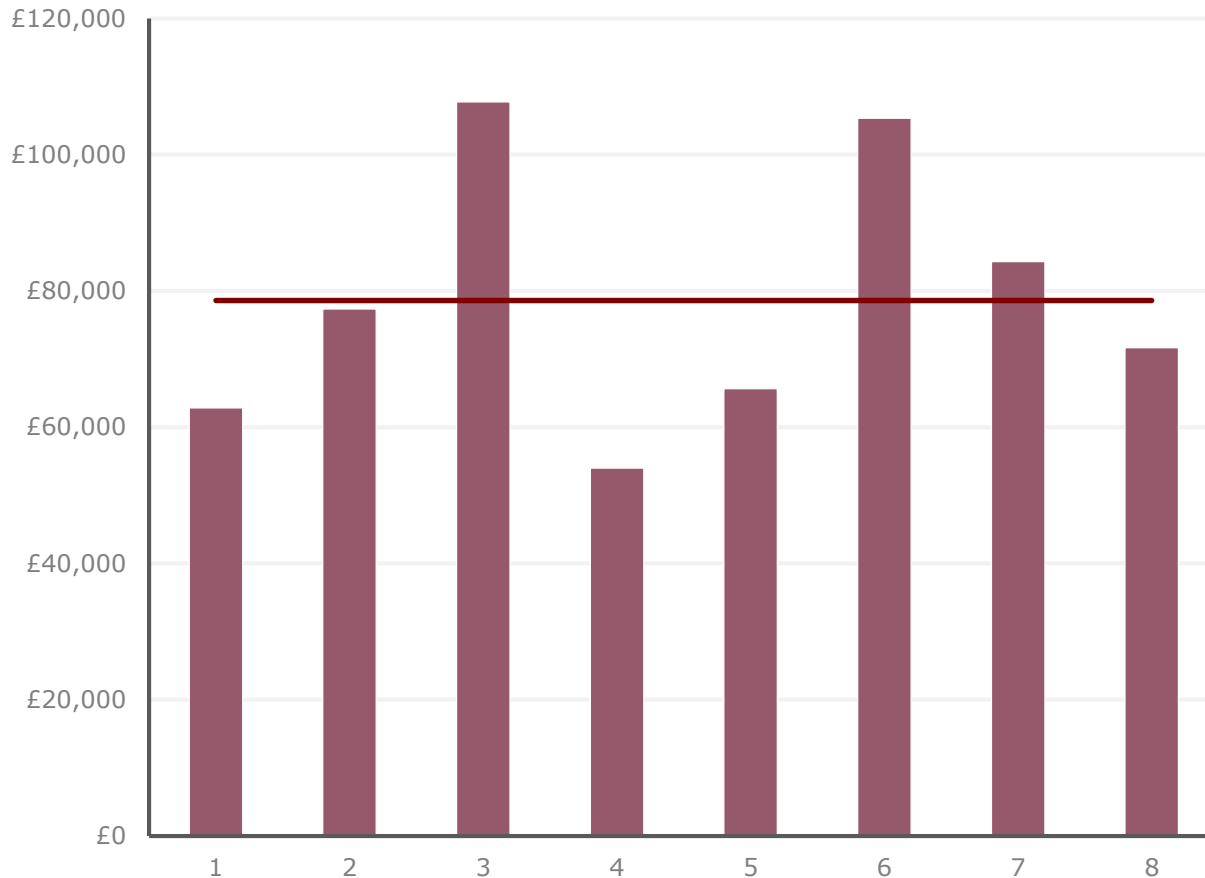


UCM highest **£10.77**

UCM average **£6.96**

UCM lowest **£3.56**

### 15,000 Life Scheme



Most expensive fee **£107,750**

Average fee **£78,605**

Lowest fee **£54,000**

3 firms  than average

5 firms  than average

UCM highest **£7.18**

UCM average **£5.24**

UCM lowest **£3.60**



Most expensive fee **£130,000**

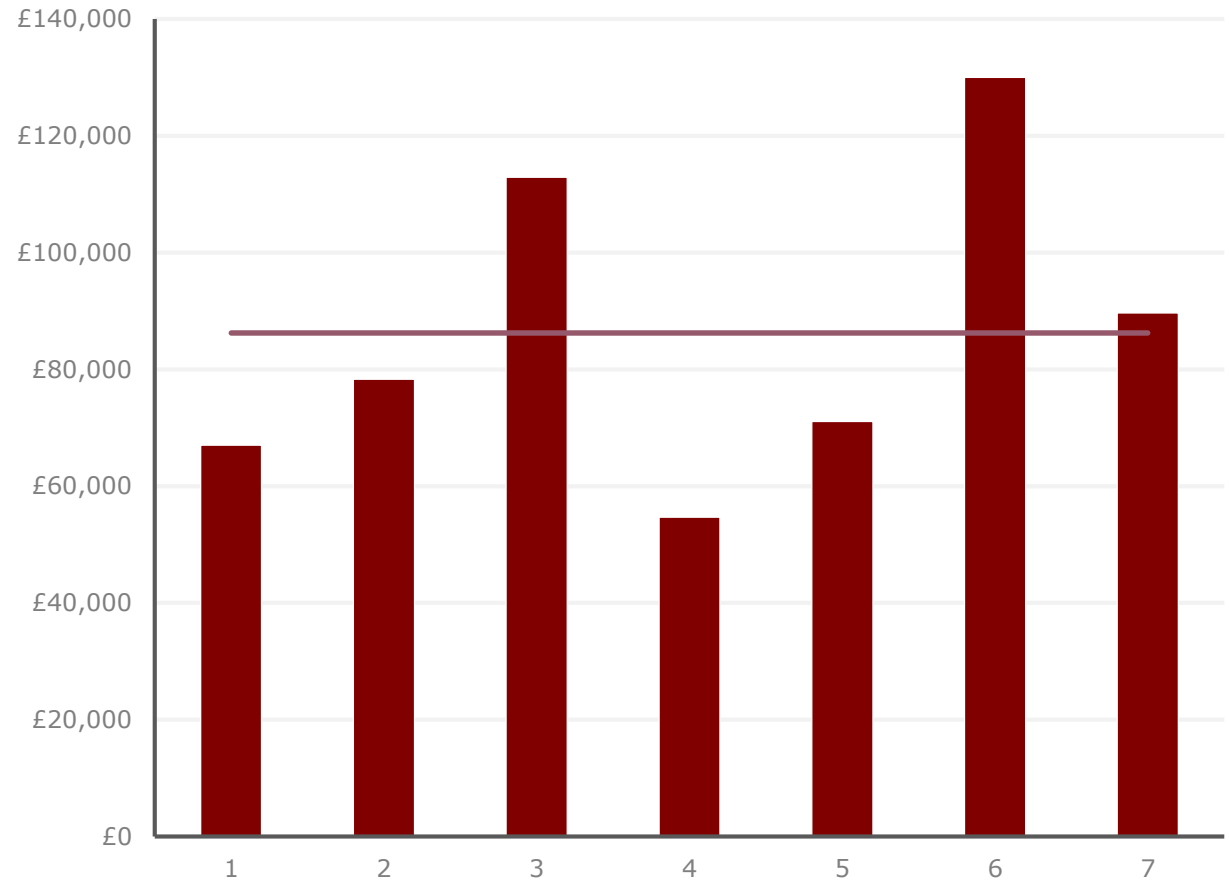
Average fee **£86,240**

Lowest fee **£54,667**

3 firms ↑ than average

4 firms ↓ than average

**20,000 Life Scheme**



UCM highest **£6.50**

UCM average **£4.31**

UCM lowest **£2.73**



## TRUSTEE MEETINGS

## TRUSTEE MEETINGS VS COSTS OF MEETINGS

The tables below show the highest, lowest and average cost for holding either 1, 2, 3 or 4 trustee meetings and the number of firms which offer 1, 2, 3 or 4 meetings for each scheme size.

	200				500				1,000				2,000			
No. Mtgs	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
H Cost	2,290	6,000	7,500	-	2,290	6,000	7,500	-	2,290	5,000	7,500	-	2500	5000	3000	15000
L Cost	1,000	1,000	-	-	1,000	1,000	-	-	1,500	1,000	2,000	-	-	1000	-	4000
Ave Cost	1,434	2,745	-	-	1,572	2,776	-	-	1,763	2,624	4,625	-	-	3622	-	10000
No. Firms	7	10	1	0	4	13	1	0	3	11	4	0	1	8	1	4

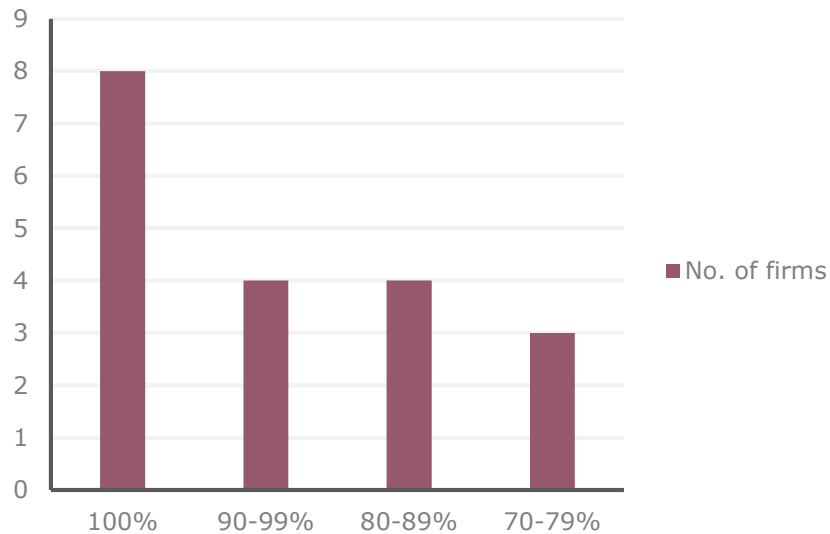
	5,000				10,000				15,000				20,000			
No. Mtgs	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
H Cost	3500	5000	3000	15000	-	6900	-	15000	-	7700	6870	14000	-	8300	6870	14000
L Cost	-	1000	-	4000	-	1000	-	4000	-	1000	-	4000	-	1000	-	4000
Ave Cost	-	3868	-	9750	-	4413	-	8500	-	2284	-	4252	-	4650	-	8500
No. Firms	1	7	1	4	0	6	0	6	0	3	1	4	0	2	1	4

## CORE VS NON CORE

## CORE

We asked all firms to provide their fees based on tasks we would consider to be 'core' to an actuarial service. A list of these 22 key tasks can be found in the Appendix.

The table below sets out how many firms provide all or most of the tasks:

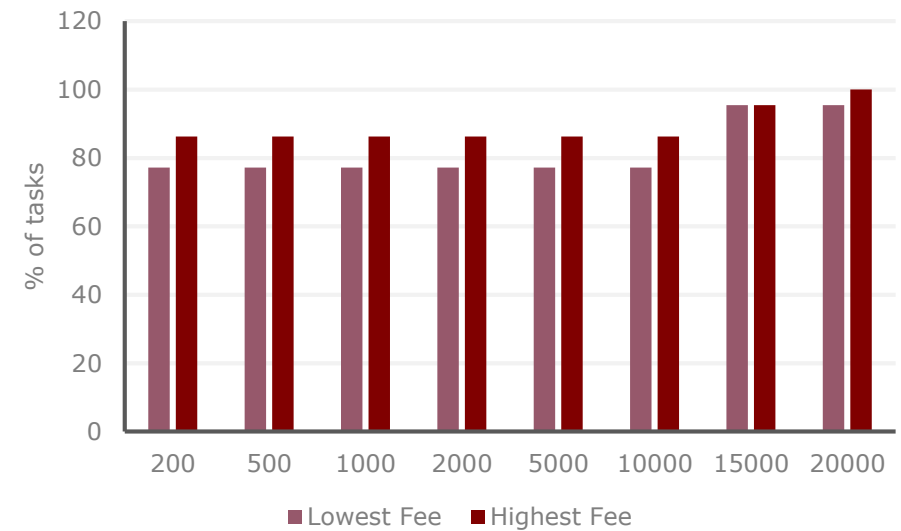


Over a third of firms in the survey offer less than 89% of core tasks. The average number of tasks offered is 91.6%.

10 firms ↑ than average

9 firms ↓ than average

We also looked at the percentage of tasks included in the various scheme sizes by the firm with the highest and lowest fees.

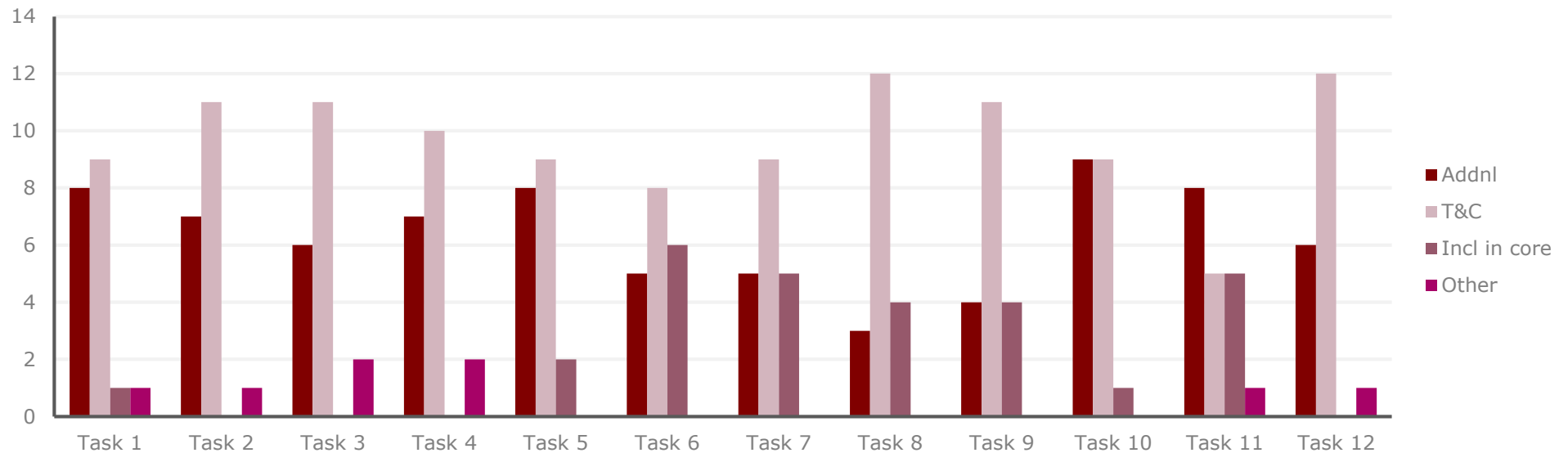


Consistently across all scheme sizes, neither the highest charging firm nor the lowest charging firm offers 100% of the tasks. However what we can see is that across virtually all scheme sizes, the more you pay the more you receive.

## NON CORE

Schemes often require additional tasks to be carried out on top of the core services. We asked firms how they charged 12 non-core tasks, these can be found in the Appendix. The responses with caveats were either fixed fee, time cost or included in the core fees.

Below we set out the number of firms for each charging basis for the non-core tasks:



The majority of tasks are provided on a time cost basis or covered by an additional fixed fee.

There are times when firms offer more than the norm within their core fee:

- Six firms include Task 6 (input/comment in relation to the SIP)
- Five firms include Task 7 (liaise with trustees on scheme administration matters as and when required)
- Five firms include Task 11 (detailed advice in relation to the impact on funding levels of transfer values (TVs) and provision of TVs where schemes are not fully funded)

## CHARGE OUT RATES

We asked firms to provide hourly rates for a Scheme Actuary, a qualified Actuary and actuarial support staff. Whilst this is not directly relevant for fixed price core work, it is of course the basis for how firms calculate these fees. The range is significant across all areas of actuarial expertise. It is accepted that the more experienced the actuary, the higher the charge out rate. Once trustees' requirements step outside of the core tasks, additional fees are triggered. If a project can be fully scoped, these can also be fixed fee. However if the process is more nebulous, the firm may only be able to provide a budgeted estimate. Here is when project management principles become important for trustees to maintain control. Pure time/cost charging is generally the realm of ad hoc support, sometimes needing immediate turnaround!

Schemes looking at value for money need to know whether they have met their objectives. Trustees then need to know how their charges are made up. Who is carrying out the work - is it a graduate, a part qualified actuary or a qualified actuary? Rates for each will differ considerably as can be seen below. Schemes should ask the question, does this work warrant the fees charged? An experienced actuary should bring a wider perspective and a greater degree of intellectual rigour.

### **Scheme Actuary Hourly Rates:**

Range	£180 - £650
Average	£377.45
Mode	£300

### **Actuarial Support Hourly Rates:**

Range	£40 - £350
Average	£170.21
Mode	£150

### **Actuary Hourly Rates:**

Range	£170 - £450
Average	£273.32
Mode	£250

**VALUE FOR MONEY?**



## GAUGING VALUE FOR MONEY – VFM

In order to make sense of whether our model schemes are receiving value for money we compared the highest UCM and lowest UCM with the highest and lowest percentage of tasks provided. Trustees expect consistency and for fees and service to be positively correlated, however from the survey results we can see there can be a significant difference in the value schemes derive from the core fee they pay. Two schemes with the same needs and basic characteristics could be paying a markedly different fee and for one to be receiving a more comprehensive service than the other. It is feasible this could be the scheme with the lowest fees. The table below shows the highest and lowest UCM for each scheme and their associated percentage of tasks:

		UCM £	% of Tasks			UCM £	% of Tasks
200	Highest	248.33	86.3	5,000	Highest	19.27	86.3
	Lowest	50.00	77.2		Lowest	6.12	77.2
500	Highest	111.33	86.3	10,000	Highest	10.77	86.3
	Lowest	24.00	77.2		Lowest	3.56	77.2
1,000	Highest	65.33	86.3	15,000	Highest	7.18	95.5
	Lowest	14.00	77.2		Lowest	3.60	95.5
2,000	Highest	41.33	86.3	20,000	Highest	6.50	100
	Lowest	13.81	77.2		Lowest	2.73	95.5

It is very clear from the results that even if a scheme was to pay the highest fee it would not necessarily receive a comprehensive service, particularly in the smaller schemes. For schemes of 15,000 and 20,000 there is less discrepancy in service provision, but the range in fees is still large.

## SUMMARY

## FINAL THOUGHTS. . .

This year the KGC survey extended to include the larger scheme sizes to seek to understand if the value schemes derive from their actuarial provider continues to increase as they get bigger. The results demonstrate this is the case. Whether it is influenced simply by scale, from greater Trustee oversight or a mix of the two is a question for Trustees themselves to ask. From TPR research we know larger schemes engage more with their advisers, including their actuarial advisers. The survey results show this is facilitated by advisers' approach to costing meetings.

At a Year One level the percentage difference in UCM between the largest and the smallest schemes is vast. Whilst some may argue against crude comparisons, we believe UCM is a simplistic but effective tool to begin to understand value for money. After all, when things are brought to a member level this makes it 'real'.

In this year's survey, we have looked at the question of value for money which is quite an intangible and difficult concept to measure. The survey results did not help find the complete answer, it did show that schemes paying the highest fees were not necessarily receiving any more services than a scheme paying lower fees.

Given that this thorny subject will continue to be important, in next year's survey, we will look to investigate this area further.

## APPENDIX

## 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). General guidance regarding contingent assets, risk 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.

Calculation of VaR for purposes of TPR scheme return (to include date/liability basis/% of VaR calculated/period of which it is modelled).

### 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 (each participant asked to state how many 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.

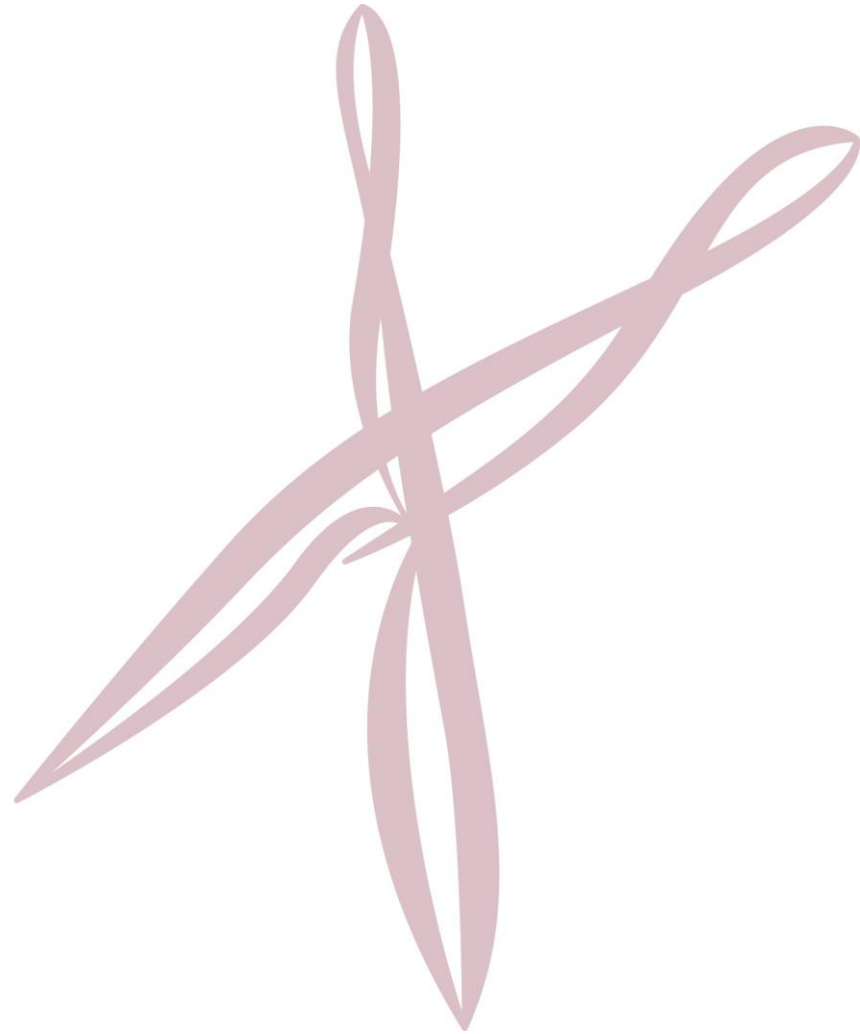
### Corporate Actuarial

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

The chart below sets out the tasks we consider to be non-core.

- |  |
|--|
| <b>1.</b> Ad hoc valuations arising as a result of changes in scheme structure, membership, membership profile or business activities.   |
| <b>2.</b> 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 |
| <b>3.</b> Advice relating to material changes in staffing levels and reporting on financial implications for members and benefit arrangements.   |
| <b>4.</b> Calculations and advice arising in connection with changes in the contracting out status of the scheme or terms of contracting out.  |
| <b>5.</b> Provision of certificates other than those provided under the services e.g. Section 67 Certificates.   |
| <b>6.</b> Actuarial input/comment in relation to Statement of Investment Principles (SIP).   |
| <b>7.</b> Liaise with trustees on Scheme administration matters as and when required e.g. calculation of transfer values over an agreed limit, cost of augmentations etc.  |
| <b>8.</b> Discussions with TPR in relation to funding plans, including particular Recovery Plans, SFS and calculation of Technical Provisions.   |
| <b>9.</b> 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.  |
| <b>10.</b> 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.  |
| <b>11.</b> Detailed advice on alternative bases for the calculation of actuarial factors.  |
| <b>12.</b> Advising on terms of any bulk transfers to be paid/received.  |



Copyright Notice: This document contains information that is proprietary to KGC who has all rights of copyright in it. Any dissemination, distribution, reproduction, or disclosure in any form of the content of this document requires prior written permission of KGC.

**© Copyright KGC Associates Ltd 2016**