



Morris Review of the Actuarial Profession

**Response by Prospect, Government Actuary's
Department Branch**

to Chapter 3 of the June 2004 Consultation Document

September 2004

THE MORRIS REVIEW

CHAPTER 3: THE GOVERNMENT ACTUARY'S DEPARTMENT

Response by Prospect, Government Actuary's Department Branch

1 Introduction

- 1.1 Prospect represents all grades in the Government Actuary's Department (GAD). When pay and grading was devolved to government departments in 1996, it was agreed that members of other civil service unions at GAD would join Prospect (then IPMS), under the concordat agreements between trade unions, so that one union existed for representation of staff in negotiations with management. Prospect is the only union officially recognized by management in GAD.
- 1.2 GAD Branch of Prospect currently has 54 members¹, representing around half of the total staff of GAD. Most senior staff, including the Government Actuary, are members of Prospect. Management involves the Branch in all decisions that directly affect staff pay and other terms and conditions, and also consults on wider issues.
- 1.3 The Branch has provided comments to management in the preparation of, and endorses, GAD's submission to the Review team dated 9 September on Chapter 3 of the June 2004 Consultation Document. Given that a number of the issues under consideration by the Review in that Chapter are of direct relevance to GAD staff, however, the Branch has considered it appropriate to also make this separate submission to the Review team. Whilst this has been prepared by the Branch, the submission has been shared with, and is endorsed by, Prospect as a whole. The Branch understands that GAD is making a further submission to the Review team on Chapters 1 and 2 of the Consultation Document.
- 1.4 Prospect would be happy at any time to answer any questions that the Review team may have on the issues raised in this submission, or to meet with the team to discuss these, if that would be helpful.

2 The work of GAD

- 2.1 GAD exists to provide mainly public sector clients with independent, professional actuarial advice of the highest quality at reasonable cost. GAD carries out a wide variety of work including:
- numerous tasks which are required to be undertaken by the Government Actuary or by GAD under UK legislation;
 - acting as actuaries to UK public sector pension schemes; GAD specializes in advising on pension provision for public service employees;
 - providing advice on pensions policy for UK public sector schemes;
 - providing advice on the pensions aspects of outsourcing and retendering of public service functions, including in particular assessing whether private sector pension schemes to which civil servants are transferred (e.g. following privatisation) are broadly comparable to the Principal Civil Service Pension

¹ This figure excludes 9 Prospect members among former members of GAD staff responsible for providing actuarial advice to the Financial Services Authority (FSA) who were transferred to FSA in April 2001 and remain Prospect members through a separate section of GAD Branch.

Scheme (PCSPS); this role also applies to transfers from other parts of the public sector;

- providing advice on the finances of the GB National Insurance Fund, including carrying out statutory periodic reviews of the Fund and preparing financial projections;
- providing actuarial advice to the Department for Work and Pensions (DWP), HM Treasury and the Inland Revenue on national policy and legislation on social security and state and private pensions;
- preparing the official national population projections for the UK and its constituent countries, projections by marital status, and life tables;
- conducting regular surveys of occupational pension scheme provision in the UK;
- advising the Occupational Pensions Regulatory Authority (Opra) on the regulation of employer-sponsored pension schemes and stakeholder pensions;
- advising overseas governments on social security, public sector pensions and the supervision and regulation of insurance companies; and
- various other tasks, e.g. certifying that there is no evidence of non-randomness in the generation of premium bond numbers by the ERNIE random number generator; and preparing Ogden tables for use by the Courts in assessing damages in personal injury and fatal accident cases.

2.2 A more detailed description of the main objectives of, and the work carried out by, GAD is provided in recent GAD Annual Reports, copies of which are available on the GAD website at www.gad.gov.uk.

3 The value of GAD to government and the wider public sector

3.1 GAD is an independent government department. Since 1989, following a review of GAD carried out in that year by HM Treasury officials and a private sector management consultant, GAD has operated a “full repayment” regime, being required to charge all its departmental and other clients for the actuarial services it provides on a not-for-profit basis, with the exception of its public interest work on population projections, life tables and the occupational pension schemes survey, in respect of which it continues to receive a net vote (i.e. a permitted excess of expenditure over income) from HM Treasury. Where they are not under a statutory obligation to use GAD, departmental clients are encouraged to market-test actuarial services.

3.2 Prospect wishes to highlight to the Review team the following advantages of this arrangement compared with alternatives that might be considered. There are two basic alternatives: for GAD’s departmental and other clients to use private sector actuarial consultants instead; or for them to employ their own actuaries, including the possibility of a few of the larger ones doing so and those offering actuarial services to the others.

Professional independence and status

- 3.3 GAD's status as an independent government department is conducive to ensuring that its professional advice is impartial and objective. GAD fiercely values its professional independence (subject of course to limitations imposed by its operating within the civil service code).
- 3.4 The accepted impartiality of GAD avoids the need for different public sector entities to appoint their own actuarial consultants to help support their case.
- 3.5 As an example of the value of GAD's independence, Prospect, the Council of Civil Service Unions and their members value very highly GAD's role in assessing whether private sector pension schemes to which civil servants are transferred (e.g. following privatisation) are broadly comparable to the PCSPS. GAD is valued especially in this regard because of its independence, as well as for its intimate knowledge of the PCSPS and its general actuarial expertise.
- 3.6 In assessing broad comparability, a private sector consultant could be perceived as capable of bias because even if it was not already advising the body concerned on its pension arrangements, it might reasonably be seen to have an interest in doing so in the future. Individual former civil servants are likely to trust the information they receive from GAD more than that from a private sector consultant working for either their new employer or the former government department. Similar concerns over potential bias might also reasonably exist in the case of an actuary working for a government department which was carrying out a privatisation.
- 3.7 This independence and impartiality would be lost if different government departments were to employ their own actuaries. It would also be much harder to ensure if there was a centralised actuarial unit, even if still headed by the Government Actuary, located in another government department. This is because there would likely be problems in terms of the perceived objectivity and independence of the advice given to clients other than the "home" department.
- 3.8 GAD is held in high regard by its clients, as evidenced by general feedback from clients, responses to periodic client satisfaction surveys and the fact that few clients have taken their business elsewhere. This was specifically acknowledged by the Treasury Select Committee in its report published following a review of GAD which it conducted in 2001.

Consistency and continuity

- 3.9 GAD's role in giving advice to Ministers and to a wide range of government departments and public sector bodies helps to ensure consistency in the provision of such advice and in the resulting decisions that are taken.
- 3.10 Continuity of advice is also provided by this arrangement, and through the accumulation of years of experience which GAD has in providing such advice.
- 3.11 This consistency and continuity would be lost if government departments were to employ their own actuaries, and would also be harder to ensure if there was a

centralised actuarial unit located in another government department. The same also clearly applies if different private sector consultants were to be employed by different government departments, with the risk of conflicting advice being received.

Availability

- 3.12 GAD provides a readily available source of actuarial advice “on tap” for Ministers, government departments and other public bodies. This is very valuable, especially for small departments or departments which have only a low or occasional demand for actuarial advice, providing flexible access to a specialized professional resource. This is fully consistent with the principles of the Gershon Review. GAD’s location in central London is also logistically very convenient for advising Ministers and a wide range of government departments.
- 3.13 GAD is a sufficiently large player in the actuarial recruitment market to generally have no difficulty in attracting high quality graduates as trainee actuaries and in recruiting and retaining qualified actuaries.
- 3.14 Few government departments would have the need for even one full-time actuary, and for those that did the number of actuaries employed is likely to be very small, creating potential problems with resources at times when there are competing demands on these in the department concerned. It is also unlikely that individual departments would be able to attract and retain on a permanent basis sufficient actuaries of appropriate quality to meet their needs, or to put in place adequate peer review arrangements for such actuaries.
- 3.15 A centralised actuarial unit located in another government department would also likely find it harder to attract and retain high quality actuaries because of the more limited career development paths which that department would likely be able to offer, and would give rise to potential conflicts in relation to availability of resources for work outside the “home” department. It would also be logistically more difficult to organise an actuarial consultancy service across a wide range of government departments and the wider public sector from another department, for which the provision of actuarial services would not be a core activity.
- 3.16 Private sector consultants may find it a particular challenge to provide advice only on an ad hoc basis due to the need to balance this against demands for their time from other clients. It is also unlikely that some of GAD’s work would be attractive to, and sought by, such consultants, and particularly that which is in the public interest such as the provision of Ogden tables for use by the Courts in assessing damages in personal injury and fatal accident cases. This is because there may be potential conflicts with advice they provide to their clients, and due to such work often being on an irregular basis and producing little or no fee income.

Value for money

- 3.17 GAD is a not-for-profit organisation and provides a cost effective source of actuarial advice for government departments and other public bodies compared

to the alternative of using private sector consultants.

- 3.18 The accepted impartiality of GAD avoids the waste of public money which could arise if different public sector entities were each to appoint private sector consultants to help support their case. GAD also reduces the challenges and costs of bringing private sector consultants up to speed on government requirements for each separate assignment.

Knowledge of government

- 3.19 Because GAD is a government department, its actuaries have a grounding in the workings of government and an understanding of, and commitment to, the ethos within the public sector whilst at the same time being open to, and versed in, ideas developed in the private sector. This combination of skills brings a knowledge of how advice to public sector clients should best be formulated and presented.
- 3.20 A government “in-house” source of actuarial advice is more comfortable for policy development and regulatory matters, and also for handling issues of a confidential or sensitive nature.

Professional advantages

- 3.21 GAD offers attractive and interesting career development paths for trainee actuaries and qualified actuaries. It is also able to offer a reasonably competitive remuneration structure, although subject to constraints as a result of being a government department.
- 3.22 The Government Actuary and other members of GAD serve on various Faculty and Institute of Actuaries boards, committees and working parties, and are regularly invited to provide actuarial input to other outside bodies. GAD also has a strong commitment to training and providing access to relevant conferences and seminars to ensure the continuing professional development of its actuarial and other staff.
- 3.23 It would be difficult for individual actuaries, or very small groups of actuaries, working in individual government departments to maintain their professional cutting edge, provide as up-to-date, strong and well-resourced input as GAD is able to do, or get their work peer-reviewed. It is also unlikely that individual departments, or a centralised actuarial unit located in another government department, would be able to match the career development paths or remuneration structure offered by GAD. This could result in problems of recruitment and retention with a resulting loss of continuity in the provision of advice. It also seems unlikely that individual departments would recruit trainee actuaries because of the substantial training commitment (both financial and administrative) involved, threatening the continued supply of qualified actuaries with a grounding in the workings of government in the future.
- 3.24 GAD reduces the potential conflicts of interest which can arise where private sector consultants are employed to give advice on issues where there is an interface with bodies outside the public sector, and particularly regulatory issues,

where the use of one firm may give other firms commercial and confidentiality concerns.

Other

- 3.25 GAD provides the opportunity for interaction and cross-fertilization of ideas between actuaries providing advice to different government departments.
- 3.26 As well as giving policy advice to government departments, GAD also carries out practical actuarial work, for example acting as actuaries to public sector pension schemes and work for overseas clients. This is very valuable, as it helps ensure that GAD's advice is of the highest quality by grounding it in real and broad experience.
- 3.27 In summary, the alternatives to GAD continuing as an independent government department would likely result in the actuarial advice received by government departments becoming less certainly available; less consistent, independent and impartial; more expensive; and less well formulated and presented. If individual government departments, from time to time, wish to have access to actuarial expertise internally, then this can be achieved by loans or secondments of actuaries from GAD to those departments, such an arrangement currently working very successfully between GAD and Opra.
- 3.28 It is noteworthy that successive past reviews of GAD have found the arguments presented above to be persuasive. These include a review carried out under the programme of Rayner scrutinies in 1982; the 1989 HM Treasury review mentioned in paragraph 3.1; a review carried out by the Government Actuary assisted by a Steering Group of officials from HM Treasury, the Department of Social Security and the Inland Revenue in 2000; and the 2001 Treasury Select Committee review mentioned in paragraph 3.8.

4 Issues relating to GAD staff

- 4.1 Prospect represents all grades in GAD. It therefore has a particular interest in the impact that some of the issues under consideration by the Review team have for staff currently employed by GAD.
- 4.2 Intimately related to the advantages of GAD to government and the wider public sector discussed in section 3 are real and practical benefits for GAD staff, which would be threatened if GAD were to cease to be an independent government department. These are discussed briefly below.
- 4.3 GAD staff take pride in its reputation for professional independence and in the high regard in which GAD is held by its clients.
- 4.4 There is very much a public service ethos at all levels within GAD, but especially so at senior staff level. Many staff could command higher salaries in the private sector but the environment of GAD provides an incentive for them to remain working in, and for, the public sector. Management has recently advised the Branch of its intention to encourage and facilitate greater use of temporary secondments of GAD staff, both actuarial and non-actuarial, to other

government departments in the future. This underlines GAD's recognition of the importance and value of GAD staff having an understanding of the workings of government.

- 4.5 Management involves the Branch in all decisions that directly affect staff pay and other terms and conditions, and also consults on wider issues. Most senior staff, including the Government Actuary, are members of Prospect. Relations between management and the Branch are generally very good, with management demonstrating a strong commitment to Prospect and to the needs of staff.
- 4.6 Recruitment and retention of trainee actuaries, qualified actuaries and non-actuarial staff has been good in the last couple of years. GAD typically recruits around 5 trainee actuaries a year, and has also employed a significant number of new qualified actuaries, particularly into its pensions directorate, in 2004.
- 4.7 One of the factors which allows GAD to attract high quality entrants is the broad range of actuarial work and the viable career development paths which it is able to offer. This results from the concentration of actuarial expertise within government in GAD and the very dispersed nature of GAD's clients and their needs for actuarial advice, coupled with a willingness on the part of management to consider favourably requests from actuarial staff to move from one part of GAD to another, and where appropriate to encourage or arrange such moves.
- 4.8 The development of trainee actuaries is particularly important to, and the subject of a substantial commitment by, GAD. In order to pass the actuarial exams a broad range of subjects needs to be covered. Within GAD, trainee actuaries have the opportunity for practical experience in different areas of actuarial work, as well as receiving provision of coherent and consistent study leave and mentorship and support from qualified actuaries. Trainee actuaries are, because of their numbers, also more easily able to support each other through the rigours of the qualification process.
- 4.9 It is difficult to see how a steady flow of qualifying actuaries with a knowledge of the workings of government could be maintained if actuarial expertise within government were not concentrated in a single body.
- 4.10 The continuing professional development of qualified actuaries in GAD is ensured by GAD's strong commitment to training and providing access to relevant conferences and seminars, and its support for GAD actuaries to participate in various activities for the actuarial profession. As noted in paragraph 3.22, the Government Actuary and other members of GAD serve on various Faculty and Institute of Actuaries boards, committees and working parties, and are regularly invited to provide actuarial input to other outside bodies. GAD also provides support to its qualified actuaries by issuing internal Actuarial Practice Notes which set out required codes of practice, such as the need for them to get their work peer reviewed by another qualified actuary, and by holding internal professional briefings to provide information on the work undertaken by different parts of GAD and to allow cross-fertilization of ideas between actuaries providing advice to different government departments.

- 4.11 With some 60% of GAD's staff comprising trainee actuaries or qualified actuaries, the Branch has been concerned in the past about the relative lack of development opportunities for non-actuarial staff within GAD. However, a number of recent developments have helped ameliorate this concern to some extent. GAD's attainment of Investors in People status in December 1999 highlighted the ongoing need for training and development of non-actuarial staff, and GAD now actively helps such staff to obtain higher educational or vocational qualifications. GAD also introduced new "technical pay bands" in parallel with the standard civil service administrative grades in 2002 and encourages staff to transfer to these, linked to undertaking technical training including, in some cases, obtaining relevant qualifications. Vacancies in other government departments are notified to GAD staff.
- 4.12 GAD is currently able to offer a reasonably competitive remuneration structure, although subject to constraints as a result of being a government department. Both management and the Branch are aware, however, that these constraints could lead to a situation at some point in the future, particularly were recruitment and retention of staff to become difficult, in which it would be necessary for GAD to request an additional pay remit from HM Treasury. This would be needed to allow GAD salaries to be increased to be more in line with the actuarial private sector, the nature of GAD's core activity being quite unlike that of other government departments. The Branch is also currently in negotiations with management with regard to improving the scope, and the codification of the relevant criteria, for progression between pay bands.
- 4.13 Naturally, being employed by a government department also brings other advantages for GAD staff. These include a relatively greater level of job security and employment protection than that offered by the private sector, and access to membership of the PCSPS affording them a high level of pension security.
- 4.14 GAD is required to charge almost all its clients for the actuarial services it provides on a not-for-profit basis. However, GAD's charging policy is also subject to constraints as a result of GAD being a government department. These sometimes hamper GAD's ability to tender for work for wider public sector clients, and particularly overseas clients. Seeking to expand GAD's client base in this way was one of the recommendations made by the 2000 review, and also a point returned to by the Treasury Select Committee in its review in 2001, referred to in paragraph 3.28. Having somewhat greater flexibility over its charging structures, as well as over its remuneration structure and the way in which it is required to manage its finances as a government department, would be needed if GAD were to be able to compete on a more level playing field with private sector firms for such wider public sector work. Limited charging flexibility, for example allowing the use of slightly higher charge out rates for particularly urgent work, has existed since the 1989 review of GAD mentioned in paragraph 3.1. GAD has no ambitions to compete with private sector firms for private sector clients.

5 Conclusion

- 5.1 Prospect strongly supports the maintenance of GAD as an independent government department. Such a department is, in our view, much the best way

of ensuring the maintenance of reasonably priced, high quality and independent actuarial advice to government and the wider public sector. It is also highly valuable in ensuring the provision of effective support and development of those individuals who are currently providing this advice, and those who will do so in the future, by virtue of GAD's substantial commitment to training for all its staff, the continuing professional development of its qualified actuaries, and the recruitment and development of trainee actuaries.

6 Answers to Questions in the Consultation Document

- 6.1 This section sets out Prospect's responses to questions in the Consultation Document which relate directly or indirectly to GAD. Where relevant and appropriate, cross-reference is made to GAD's submission to the Review team dated 9 September on Chapter 3 of the Consultation Document, which Prospect endorses.

Question 1.11: How effectively does the Profession engage with government, business, regulators and other professions?

- 6.2 GAD works with members of other professions as appropriate. GAD's advice to other government departments is often discussed with other professionals, such as economists, accountants and lawyers, within those departments. The Ogden tables are produced by a working party of legal, insurance and actuarial experts, including the Government Actuary. GAD or individual members of its staff have membership of several national and international organisations which cover areas such as pensions, pension scheme regulation and demography. GAD also works with other professionals in many of the assignments undertaken for overseas public sector clients, including lawyers and representatives of sponsoring organisations such as the World Bank.

Question 1.13: Has the Profession done enough to promote the work of the actuarial profession?

- 6.3 The existence of GAD as an independent government department has raised the profile, acknowledgement and use of actuarial expertise within government. The Ogden tables are an example of work in the public interest incorporating actuarial expertise which otherwise might not have arisen had GAD not existed.

Question 1.29: Do you think that the Government Actuary's Department competes with private sector suppliers of actuarial services in the market? What impact do you think GAD has on competition in the market?

- 6.4 Please see GAD's submission to the Review team. The area of work for which GAD and the private sector might directly compete is unlikely to be large in practice. For the reasons explained in GAD's submission, much of the work undertaken by GAD is unlikely to be attractive to, and sought by, the private sector, and GAD has no ambitions to work for the private sector clients which account for the bulk of the work currently undertaken by the actuarial private sector.

Questions 1.30 and 1.31: How are the skills and professionalism of UK actuaries and the UK actuarial profession regarded internationally? How easy is it for actuaries to work across international boundaries?

- 6.5 The skills and professionalism of UK actuaries are regarded very highly internationally. The Government Actuary and other actuaries in GAD are members of various international bodies, and have extensive experience of working in an international setting.
- 6.6 GAD undertakes a significant amount of work for various overseas public sector clients. GAD has strong and long standing client relationships with a number of Crown dependencies, British Overseas Territories and Commonwealth countries, including among others the Channel Islands and the Isle of Man, Bermuda, Cyprus, the Falkland Islands, Gibraltar, Malta and Mauritius. More recently, GAD has advised a wider range of countries, reflecting their recognition of the specialist skills which GAD has in social security, pension reform and financial regulation. GAD was also heavily involved throughout the 1990s in contracts to organise actuarial training and promote the development of a local actuarial profession in a number of countries on behalf of the Know How Fund for the Department for International Development, as part of a strategy to support and strengthen the emerging market democracies of central and eastern Europe. GAD's seeking to expand its wider public sector work internationally was one of the recommendations made by the 2000 review, and also a point returned to by the Treasury Select Committee in its review in 2001, referred to in paragraph 3.28.
- 6.7 In general, GAD has found it straightforward to work across international boundaries, although in certain circumstances the ethos and methods of working prove somewhat different to those practised in the UK.

Question 3.3: The Government Actuary plays a public interest role in reporting to Parliament on social security matters and preparing the national population projections. Are you satisfied with how this role is currently performed? Could the market or anyone else perform these functions?

- 6.8 Please see GAD's submission to the Review team. Social security actuarial work is a relatively specialised field which requires close interaction with a number of government departments and their differing interests. It is also often highly confidential (especially those areas covered by the Budget) and politically sensitive. This is likely to make it difficult for private sector consultants to undertake, and even if they did this would involve them in a long learning curve with the risk of that being repeated should there be a practice of tendering for this work on a regular basis. It is noteworthy that this work is not undertaken by private consultants in Australia, Canada, Japan or the USA. Similarly, reports produced by actuaries working "in-house" for a particular government department might be seen as not independent, and there may be conflicting advice from actuaries employed by different departments protecting their particular interests.
- 6.9 National population projections could be carried out by other bodies, and in particular by the Registrars General for England & Wales, Scotland and

Northern Ireland. However, there are advantages in having a consistency of approach to the methodologies and assumptions used by having the work done by GAD, especially as the projections form the basis across government for planning and policy purposes. Most users of the projections are interested in the short or medium-term projections (up to 25 years hence); GAD is the predominant user of the longer-term projections (for social security work).

Question 3.4: Are there any other services which are better provided by GAD and/or the Government Actuary rather than by other providers of actuarial services?

- 6.10 Please see GAD's submission to the Review team. As well as advice on policy matters to government departments where it may be difficult for departments to be advised by private sector consultants because of political or confidentiality concerns, there are several types of public interest work undertaken by GAD which are unlikely to be carried out by private sector consultants because the amount of work required relative to the potential fee income is too great. Examples include the preparation of actuarial tables for use by the court and employment tribunals.

Question 3.5: In your view, which of the 10 reasons in paragraph 3.20 [of the Consultation Document] highlighting the rationale for a separate GAD remain valid? Are there any other reasons for maintaining GAD as an independent entity?

- 6.11 Please see GAD's submission to the Review team. Prospect believes that all the ten reasons given in paragraph 3.20 of the Consultation Document remain valid as rationales for a separate GAD. An additional reason would be that where it has been deemed appropriate for actuarial advice to be provided "within government", a separate GAD provides a structure which allows for appropriate training, career development paths and remuneration to enable the recruitment and retention of actuaries of appropriate calibre.

Question 3.6: Overall, in your view, is there a continuing need for a separate GAD? Are there alternative institutional structures for the provision of actuarial advice to government departments, Ministers and the wider public sector that the Review should consider?

- 6.12 Yes. For the reasons provided in this submission, Prospect believes that there is a continuing need for a separate GAD.

Question 3.8: How does GAD compare with structures used in other countries for the effective provision of actuarial services to government?

- 6.13 Please see GAD's submission to the Review team.

Jeremy Dunn
Branch Chair
On behalf of Prospect GAD Branch

9 September 2004