



ANNUAL REPORT

**2001 / 2002**

**GAD**

Government Actuary's Department  
[www.gad.gov.uk](http://www.gad.gov.uk)





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*The Government Actuary's Department (GAD) is a unique organisation: an independent actuarial consultancy working within government for government. It offers an actuarial consultancy service to clients throughout the UK public sector and overseas.*

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## message from the Government Actuary

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*We are pleased to publish our Annual Report much earlier than usual this year, having moved our schedule for preparing Resource Accounts on to the fast track, in order to be among the select group of departments ready to lay their accounts before Parliament before the summer recess.*

*GAD has demonstrated that it remains viable and strong as an organisation, notwithstanding slightly reduced staff numbers, following the transfer of the major part of our insurance supervision team to the Financial Services Authority (FSA) in April 2001. We have continued to do excellent work in the pensions, social security and demographic areas and to offer excellent value for money to our clients.*

*Occupational pensions work is now more than ever our predominant area of activity. This was a key year for completion of planning stages for the new civil service pension scheme, PCSPS premium, and the new scheme is now being rolled out to staff throughout the civil service. Other client schemes have been undergoing major reviews of design, financing and strategy. This process can be expected to continue as can our central role in protecting the pensions of employees affected by Public Private Partnership (PPP) and the Private Finance Initiative (PFI).*

*In the demographic area, we were pleased to complete the first National Statistics Quality Review within the Population and Migration theme – an extensive and thorough review of the methodology used for estimating future mortality improvement for the national population projections. We then went on to complete the 2000-based projections, which were released on our website in November 2001, followed by the production in March 2002 of the most extensive set of variant projections ever published in the UK.*

*In February 2002, we published our annual report for the UK Parliament on the finances of the National Insurance Fund, but there were no long-term reports required this year on the UK social security scheme. We were, however, very active in preparing reports on the financial viability of social security schemes in other countries, with reports completed for Greece, the Republic of Ireland, and Jersey, and a further major project under way for the Mexican Social Security Institution.*

*We continue to offer consultancy services to insurance regulators around the world and have begun several new projects in this area of activity.*

*We were delighted to retain our Investors in People accreditation for another three years. One of our key objectives is to train and develop all staff at GAD, both to maximise their career potential, and to equip us better to continue to give a good service to all our clients.*



A handwritten signature in blue ink that reads "Chris Daykin". The signature is stylized and written in a cursive-like font.

Chris Daykin  
Government Actuary

July 2002



## SECTION 1 pensions

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### **OCCUPATIONAL PENSION SCHEMES**

GAD advises a wide range of clients on pensions matters:

- *The managers of public service pension schemes*
- *Government departments*
- *Trustees of pension schemes in the wider public sector and in the private sector*
- *HM Treasury on general pensions policy where government is either the employer or has a financial interest*
- *Pensions policy, regulation and supervision*

### **ADVICE TO INDIVIDUAL PENSION SCHEMES**

For all the main public service schemes, actuaries in GAD advise either the managers of the scheme or the sponsoring department. Mainly unfunded, these schemes have a number of unique characteristics which require GAD's special skills.

Our actuaries advise the trustees, and sponsoring employers, of a number of funded pension schemes. Such schemes are subject to the same requirements as funded schemes elsewhere. GAD's advice ranges from completing actuarial valuations to investment strategy, and the management and communication of structural changes to schemes.

## SECTION 1

## pensions

continued

A few examples of the advice GAD provided during the year are:

- *Continuing development and moves to implementation of the new civil service pension scheme, PCSPS Premium, to be launched in October 2002.*
- *Extensive support for policymakers in the Ministry of Defence tasked with reviewing the provisions of the Armed Forces Pension Scheme.*
- *The pensions aspects of the restructuring of training provision with the integration of Training and Enterprise Councils into Learning and Skills Councils.*
- *Selecting stakeholder pension and additional voluntary contributions (AVC) providers for a major public service pension scheme.*

The implementation of the new accounting standard, FRS17, and corresponding development of the government's resource accounting requirements, led to schemes and sponsors seeking GAD's advice on the value of accrued pension liabilities.

## ADVICE TO GOVERNMENT DEPARTMENTS

Over half the work we do is for clients in government. We value our long years of service delivery to our clients, particularly our largest departmental clients:

- *Cabinet Office*
- *Department for Education and Skills*
- *Department of Health*
- *Department for Work and Pensions*
- *Ministry of Defence*

Numerous different forms of advice are sought from GAD by departments. We advise, for example, on the pension implications of pay policies and protecting government's interest in pension schemes operated by bodies sponsored by departments.

## SECTION 1

## pensions

continued

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## CONTRACTING-OUT OF SERVICES, PFI/PPP AND MOVEMENTS WITHIN GOVERNMENT

Advice on the pensions aspects of these government initiatives continues to be sought. We handled more than 250 transfers of groups of employees into, out of, or within government during the year. Our advice included: assessing pension proposals from bidders, negotiating bulk transfer arrangements to protect the pension rights of those changing employment, advising departments on sale and purchase agreements, and devising and presenting communications programmes for employers and staff.

Our 'passport' system of certification of the pension arrangements of private sector contractors continued to flourish. During the year, GAD provided more than 200 passports and actuarial statements certifying our opinion that private sector pension arrangements satisfied the government's policy requirement that staff involved in transfers to the private sector should be given a pension scheme broadly comparable to that offered in the public service.

### PENSIONS REGULATION AND SUPERVISION

*GAD acts as actuarial adviser to the Occupational Pensions Regulatory Authority (Opra). Two GAD actuaries are seconded to Opra's offices in Brighton. They work closely with Opra staff, helping in all aspects of the regulatory regime for employer-sponsored pensions. Additional support is provided from GAD's offices in London.*

### PENSIONS POLICY

During the year, GAD advised the Department for Work and Pensions on a wide range of pensions policy issues, ranging from the development of policy on the replacement for the Minimum Funding Requirement to discussions on a European pensions directive. GAD also advised the Inland Revenue on matters relating to annuities, income drawdown and pension scheme surpluses.

Fieldwork for the Government Actuary's 11th survey of occupational pension schemes started in September 2001. Responses were received at a moderate rate over the following months. Work to increase the response rate proceeded alongside preliminary analysis of the data received. Based on this on-going analysis work, initial survey results will be published during summer 2002, with full results becoming available in autumn 2002.

## SECTION 2

## social security, demography and statistics

**SOCIAL SECURITY**

GAD continued to advise the Department for Work and Pensions and the Inland Revenue on the financial aspects of the National Insurance Fund benefits and contributions. The annual report to the UK Parliament on the short-term review of the finances of the National Insurance Fund was published in February 2002 (Cm 5383).

**POPULATION PROJECTIONS**

*The Government Actuary is responsible for the official population projections of the United Kingdom and its constituent countries, subject to consultation on the assumptions with the Registrars General for England and Wales, Scotland and Northern Ireland, and liaison with user departments. Although formal responsibility for the production of the national projections for each country lies with the appropriate Registrar General, to ensure consistency of approach they formally commission the Government Actuary to produce the national projections on their behalf. Projections continue to be produced every two years and the latest set of projections, based on the population at mid-2000, was published in full on the GAD website in November 2001. This was followed by the publication in March 2002 of a wide selection of variant projections on a range of alternative assumptions, including, for the first time, variant projections for all the constituent countries of the United Kingdom. This work was a key input to the April 2002 report reviewing long-term health trends that was undertaken by Derek Wanless at the request of the Chancellor of the Exchequer.*

## SECTION 2

social security, demography and statistics continued[www.gad.gov.uk](http://www.gad.gov.uk)**MORTALITY PROJECTIONS**

*GAD was pleased to take the lead on the first of the National Statistics Quality Reviews within the theme of Population and Migration. The review covered the processes for estimating future mortality improvement, for the purposes of the national population projections. It was carried out as part of the National Statistics Quality Assurance programme and was overseen by a steering group, which included academics in the demographic field. Alternative methodologies for projecting mortality were judged against several criteria, of which accuracy of the projections was the most important. The review report was published in November 2001 and an implementation plan to take forward the report's recommendations has been put in place.*

**DAMAGES AND LOSS OF PENSION RIGHTS ON UNFAIR DISMISSAL**

GAD provided advice during 2001 to both the Lord Chancellor's Department and the Justice Department of the Scottish Executive on the setting of the discount rate to be used in awarding damages for personal injury and fatal accidents.

GAD is working with a group of employment tribunal chairmen on a revision of the guidance notes used by employment tribunals when assessing awards for loss of pension rights on unfair dismissal.

**PREMIUM BONDS**

GAD continues to check the randomness of the monthly premium bond output (ERNIE). Statistical checks are used to show that the premium bond numbers generated are free from bias and that each existing bond has an equal chance of winning a prize. GAD receives enquiries from members of the public asking why their premium bonds have not won – it is a consequence of a random process that winning or losing is not predictable. However, GAD can provide assurance that the current system is fair.

## SECTION 3

## international activities

**PENSIONS**

GAD has provided pensions advice to a variety of overseas clients, and is an associate member of the International Network of Pension Regulators and Supervisors, which was established in April 2000 on the initiative of the OECD. This network aims to serve as a forum for policy dialogue and co-operation on regulatory issues related to pensions.

**SOCIAL SECURITY**

*GAD worked in countries all over the globe delivering advice on social security policy issues and the financing of social security arrangements. Countries we advised in 2001/02 included Ghana, Greece, the Republic of Ireland, Jersey, Saudi Arabia and a risk management project for the Mexican Social Security Institution.*

*The Government Actuary continued to chair the Technical Commission for Statistical, Actuarial and Financial Studies of the International Social Security Association (ISSA), and presented papers throughout the year at international professional conferences.*

*Members of GAD continued to participate in committees of the International Actuarial Association.*

**INSURANCE SUPERVISION IN OTHER COUNTRIES**

GAD provided advice on insurance supervision to a number of other countries and helped in the training of supervisory staff for some of these clients.

A small amount of work continued in central and eastern Europe with financial support from the Know-How Fund of the Department for International Development. This included insurance supervision work in Russia and actuarial education projects in Croatia and Russia.

**OVERSEAS VISITORS**

GAD is always happy to welcome overseas visitors to New King's Beam House, especially at the request of government departments or in connection with client projects.

## SECTION 4

## professional affairs

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**COUNCILS AND COMMITTEES**

GAD plays a significant role in the affairs of the actuarial profession, which is important from the perspective of being able to influence events, as well as contributing greatly to the professional development of individual members of staff. Several members of the department either chair, or are members of, committees of the Faculty and Institute of Actuaries. Others are members of working parties or research groups. For example, during the year Andrew Young, Deputy Government Actuary, was a member of the profession's Pensions Board and chaired the Board's Technical Support and Research Committee. The Government Actuary was a member of the Education and Continuing Professional Development Board and chaired the profession's International Committee. David Lewis is a member of the Social Policy Board and chairman of the Pension Provision Task Force.

The Government Actuary chaired the Professionalism Committee of the International Actuarial Association (IAA) and continued to chair the Education Committee of the European Actuarial Consultative Group.

**PROFESSIONAL EXAMINATIONS**

*GAD is committed to the principles of Investors in People, and gives strong emphasis to continuing personal development. We are pleased to report the success of many of our staff in professional exams – for the actuarial profession, accountancy and the Institute of Personnel Development. We congratulate Suzanne Ferguson, Warwick Mason and Adam Michaels on completing the examinations to become Fellows of the Institute of Actuaries, and John Adams, Dwight Blackman, Marie Lamaletie and James Pepler on completing the first part of the examinations of the Institute of Actuaries, to achieve the Diploma in Actuarial Techniques.*

**LECTURES AND PUBLICATIONS**

Members of GAD gave many talks and lectures at professional meetings, conferences and seminars, in the UK and across the world. Assistance was given, in association with the Faculty and Institute of Actuaries, in the development of the actuarial profession in central and eastern Europe, under projects for the Department for International Development Know-How Fund, and in several other actuarially developing countries.

GAD staff continued to offer service to the Faculty and Institute of Actuaries in the conduct of professional examinations and with contributions to 'The Actuary' magazine and the British Actuarial Journal.

## SECTION 5 staffing

### RECRUITMENT

Recruitment of qualified and trainee actuaries again proved to be extremely difficult, reflecting the continued tight market conditions. Two qualified actuaries were recruited in 2001/02. However, in addition to the 14 actuaries who transferred to the FSA, another four actuaries resigned. Further recruitment exercises have continued, with limited success, and at the year-end additional actuaries and trainee actuaries were still being sought.

All appropriate systems, records and controls are in place to ensure that any recruitment which takes place within GAD is carried out on the basis of fair and open competition and selection on merit, and in accordance with the Recruitment Code laid down by the Civil Service Commissioners. These systems, records and controls are subject to internal checks.

Permanent administrative staff were appointed during the year through open competition, and some casual administrative appointments were made. These appointments were made both to replace staff who had left, and to strengthen administrative support throughout the department. On 31 March 2002, there were 38 non-actuarial staff in post.

### 21 STAFF RECRUITED DURING 2001/02

	MALE	FEMALE
Actuaries	1	1
Trainee Actuaries	8	3
Unified Grades	–	1
Executive Grades	1	2
Administrative Grades	2	2
<b>Total</b>	<b>12</b>	<b>9</b>

## SECTION 5

staffing continued**QUALIFIED ACTUARIES**

The outward secondment of two actuaries to Opra continued. The year also saw three staff successfully completing their actuarial examinations and being appointed as qualified actuaries.

On 31 March 2002 there were 32 qualified actuaries in post, four of whom were working part-time (between one day and 33 hours per week). Some retired GAD actuaries were also used on an ad-hoc consultancy basis on specific projects throughout the year.

**TRAINEE ACTUARIES**

Six new permanent trainee actuary appointments were made during the year. Three of these appointments derived from the 2000/01, and two from the 2001/02, Graduate Trainee Actuary Open Competitions. Six trainees resigned during the year and three trainees transferred to the FSA. A good standard of applications was received for the 2001/02 Graduate Trainee Actuary Open Competition, and a further six new trainees will start in September 2002. One ethnic minority candidate and no candidates with disabilities were successful in the 2001/02 Graduate Trainee Actuary Open Competition. On 31 March 2002, there were 26 trainee actuaries in post, including four casual trainees completing work experience placements.

**TRAINING AND DEVELOPMENT**

*During the year, the first stage of an in-house Management Development Programme was launched consisting of five core modules. GAD continued its policy of making personal development a priority and, as a result, some £145,000 was spent on training and development during the year. Benefits accruing to the department include increased awareness amongst staff of resource management, maintenance of Continuing Professional Development (CPD), and a high level of IT skills throughout the department. Throughout the year, several non-actuarial staff embarked on a range of professional training programmes.*

## SECTION 5

## staffing continued

**STAFF IN POST AS AT 31 MARCH 2002**

	STAFF IN POST	FULL TIME EQUIVALENTS
Actuaries	32	30.2
Trainee Actuaries	26	26
Unified Grades	4	4
Executive Grades	23	23
Administrative Grades	10	10
Support Grades	1	1
<b>Total</b>	<b>96</b>	<b>94.2</b>

**STAFF RECRUITED DURING 2001/02  
BY ETHNIC ORIGIN**

	1	2	3	4	5
Actuaries	-	-	-	-	2
Trainee Actuaries	2	-	1	1	7
Unified Grades	-	-	-	-	1
Executive Grades	-	-	-	-	3
Administrative Grades	1	1	-	-	2
<b>Total</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>15</b>

Key: 1 Asian – Indian    2 Asian – Other    3 Black – Caribbean    4 Chinese    5 White

One Administrative Officer with a disability was recruited during the year.

No use of the permitted exceptions to the recruitment code was made during 2001/02.

## SECTION 6 finance

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### A CHALLENGING YEAR

The loss of a substantial part of our business to the FSA put additional financial pressures on the Government Actuary's Department at the same time as all government departments were moving from Cash Accounting to Resource Accounting. A complete review of our financial procedures by our Management Board resulted in improvements, especially to our invoicing and client dealings, enabling us to satisfactorily manage the loss of business and the transition to Resource Accounting.

The transfer of our insurance business to the FSA has impacted significantly on our gross and net outturns, with total income reducing from £7.3 million in 2000/01 to £5.9 million in 2001/02. There was a higher net outturn (balance of expenditure over income), increasing from £41K in 2000/01 to £650K in 2001/02, but this was still within the voted net resources of £671K. Even with such a significant change to our business, we still managed to operate within the financial targets set by government.

### BETTER INVOICING

*Slow payments by our clients remains a concern. There has been no improvement over the previous year, with debtors increasing in gross terms. The reluctance of some clients to pay within our 30-day payment terms has caused problems in accurately forecasting and managing our cash flow. Plans are in hand to improve the situation through the creation of a client/business manager post to improve communications and relationships with clients, with a view to reducing average payment times.*

Capital expenditure relates primarily to the on-going replacement programme of computer hardware and software, and furniture for office use, amounting to £156K, with a further £64K for professional fees relating to a property we are hoping to lease from 2003. Salary costs remain the Department's major expense, accounting for almost 70% of total expenditure (this continues to reflect the number of highly skilled actuarial specialists employed in GAD) with the next most significant being accommodation charges, accounting for 11% of total expenditure.

SECTION 6  
**finance** continued

## FINANCIAL TABLES

The summary tables below include data taken from the Resource Accounts, which were presented to the UK Parliament on 10 July 2002. A full copy of the Resource Accounts can be viewed on the GAD website: [www.gad.gov.uk](http://www.gad.gov.uk)

### TABLE 1 INCOME AND EXPENDITURE

Income and expenditure on a resource basis for the year ended 31 March 2002		
	2001/02	2000/01
	£,000	£,000
<b>Expenditure</b>		
Salaries (including National Insurance and pension contributions)	4,557	5,581
Accommodation charges	725	657
Other administrative expenditure	886	1,016
Non-cash costs (including depreciation, cost of capital and auditor's remuneration)	359	276
Movement on work in progress	54	(209)
<b>Total expenditure</b>	<b>6,581</b>	<b>7,321</b>
<b>Income</b>		
Fees and charges to other government departments (excluding National Insurance Fund)	2,848	5,034
Fees and charges to the National Insurance Fund	667	667
Fees and charges to the wider public sector and others	2,416	1,579
<b>Total income</b>	<b>5,931</b>	<b>7,280</b>
<b>Balance of expenditure over income</b>	<b>650</b>	<b>41</b>
Plus purchase of fixed assets	220	203
Non-cash costs	(359)	(276)
Adjustment for changes in working capital other than cash	106	824
Use of provision	19	1
<b>Net cash requirement for the year</b>	<b>636</b>	<b>793</b>

## SECTION 6

## finance continued

**TABLE 2 BALANCE SHEET**

## Balance sheet as at 31 March 2002

	31 March 2002		31 March 2001	
	£,000	£,000	£,000	£,000
Fixed assets				
Tangible assets	253		248	
Intangible assets	<u>129</u>		<u>91</u>	
		382		339
Current assets				
Work in progress	580		634	
Debtors	1,986		1,901	
Cash at bank and in hand	<u>166</u>		<u>552</u>	
	2,732		3,087	
Creditors (due within one year)	(450)		(691)	
Net current assets		<u>2,282</u>		<u>2,396</u>
<b>Total assets less current liabilities</b>		<b>2,664</b>		<b>2,735</b>
Provision for liabilities and charges		<u>(32)</u>		<u>(46)</u>
<b>Total net assets</b>		<b>2,632</b>		<b>2,689</b>
Taxpayers' equity				
General fund		2,629		2,687
Revaluation reserve		<u>3</u>		<u>2</u>
<b>Total equity</b>		<b>2,632</b>		<b>2,689</b>



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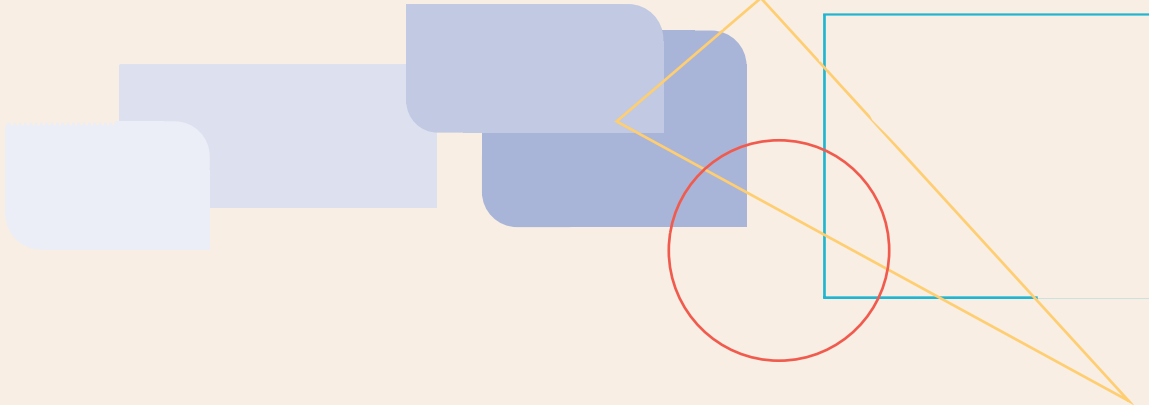
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*A range of GAD publications can be found on the publications page of our website, which can be accessed directly from the home page at [www.gad.gov.uk](http://www.gad.gov.uk)*



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INVESTOR IN PEOPLE