

GOVERNMENT ACTUARY'S DEPARTMENT

*ACTUARIAL ANALYSIS
FOR THE PUBLIC SECTOR—FROM THE PUBLIC SECTOR*

The incoming administration faces challenges in:

Pensions

Risk and Government Finance

Health and Well-Being

Institutional Investment

The UK's Financial Institutions

Clear actuarial analysis from GAD can help make a difference

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CHALLENGES IN PENSIONS

State Pensions (including Old Age Pension and S2P)

- ⇒ Analysing changes (real or potential) to State Pension Age and the long-term consequences of proposals
- ⇒ Understanding affordability of increases to State pensions
- ⇒ Sustainability of the link between pensions and National Insurance Contributions
- ⇒ Removing complexity without increasing costs
- ⇒ Understanding impact of means-testing under various scenarios.

Public Service Pensions

- ⇒ Understanding long-term sustainability of unfunded public sector pensions and overall risks to the taxpayer
- ⇒ Assessing comparative fairness against private sector provision and the value of pensions in the reward package
- ⇒ Assessing comparative fairness of different levels of provision within the public sector itself
- ⇒ Assessing sustainability of current cost-sharing and risk-sharing between members and employers, reviewing and analysing alternatives as appropriate
- ⇒ Understanding viability of current funded public sector pension provision at the entity level, for example local government and universities
- ⇒ Ensuring that pensions are not a barrier in outsourcing; remaining attractive to bidders and transferees, whilst maintaining value for money.

MORE CHALLENGES IN PENSIONS***Private sector pensions***

- ⇒ Sustainability (and investment policy) of Government protection schemes such as the Pension Protection Fund
- ⇒ Are charities and other 'not for profit' organisations (including any funded from the public purse, such as universities) viable given their DB pensions?
- ⇒ Extent of government guarantees for private sector pensions
- ⇒ Effectiveness of private sector funding regime
- ⇒ Impact of the European insurance solvency directives on UK pension schemes
- ⇒ Long-term sustainability of NEST
- ⇒ Simplifying the pensions regime.

Annuity purchase at retirement

- ⇒ Does market capacity exist given the fast-growing demand?
- ⇒ Encouraging product diversity and flexibility to meet consumer needs, while ensuring pensioner protection.

Other generic Issues

- ⇒ Provision of appropriate Government-backed investments for pension funds
- ⇒ Increasing use of longevity swaps, and potential risks
- ⇒ Role of other non-pensions vehicles in retirement income (eg inheritances, equity-release and company share schemes)
- ⇒ The taxation of pensions
- ⇒ Understanding how to respond to requests for long-term modelling in a culture of greater disclosure.

CHALLENGES IN RISK AND GOVERNMENT FINANCE

Risk across Government Departments

- ⇒ Identifying the big strategic risks
- ⇒ Avoiding risk assessments being “engineered” to support a project; measuring and monitoring the price of risk to deliver desired behaviours
- ⇒ Ensuring all Departments deliver to the “spirit” as well as the letter on internal controls.

Potential barriers to doing what’s right for the country on big strategic risks

- ⇒ A culture which side-lines risk management to an internal box-ticking operation; thereby ignoring the spirit and ignoring some strategic risks which cannot be handled by internal controls
- ⇒ Conflicts of interest and incentives (culturally, financially and career-wise) which result in a culture of ignoring strategic risks
- ⇒ Assessing enforcement mechanisms; ensuring holistic cross-Government oversight/responsibility.

A resolution for risk management

- ⇒ A defined methodology for strategic risk identification, mitigation and management, including a pricing mechanism for risk
- ⇒ Pooling risks (eg, but not necessarily, state-owned insurance)
- ⇒ The audit of project appraisals (whether capital projects or big expense projects) and strategic risk assessments
- ⇒ Recognising the value of flexibility as well as the price of risk.

Government finance

- ⇒ Modelling long-term consequences, for behaviour and finances, of changes to inter-Government accounting - e.g. on DEL/AME

HEALTH AND WELL-BEING CHALLENGES

Sustainability of the NHS (including NICE)

- ⇒ Costs keep rising greater than prices (or earnings)
- ⇒ The gap between expected *healthy* and *total* life expectancy is growing
- ⇒ A “time-bomb” risk of growing dementia cases
- ⇒ Decisions might be taken on non-robust not-long-term financial planning methodologies, leading to sub-optimal decisions both at centre and in PCTs
- ⇒ Understanding long-term projections - these being key to understanding sustainability.

Long Term Care

- ⇒ Very costly and growing very rapidly, and very unpredictable to individuals
- ⇒ Comparing the various financing options needs to be on a like-for-like basis taking account of inter-generational issues
- ⇒ Understanding robust long-term projections to properly understand sustainability and consistency with National Insurance Fund projections
- ⇒ Potential “exponential” cost exposure due to increased dementia cases.

Incapacity

- ⇒ How to test and evaluate interventions, to create better health and increase individuals’ economic activity
- ⇒ Understanding robust long-term financial assessment models.

CHALLENGES IN INSTITUTIONAL INVESTMENT

Finance

- ⇒ Ensuring an appropriate capital structure for privately-financed operations, consistent with the level of risk (eg for banks, SMEs, infrastructure and social housing projects)
- ⇒ Issuing the right type of government debt to meet government objectives and the nature of institutional demand
- ⇒ Maintaining the supply of appropriate savings vehicles to encourage the right level of private savings and investment
- ⇒ Understanding how to respond to requests for long-term modelling in a culture of greater disclosure.

Pensions

- ⇒ Understanding the impact and consequences of investment volatility in funded public service pension schemes - such as the local government pension scheme
- ⇒ Can pension funds provide long-term social finance?
- ⇒ How should the Pension Protection Fund's investment of its assets be assessed for public interest to determine value for money in delivering its objectives?
- ⇒ How best to help members of defined contribution schemes to make sensible and appropriate investment choices
- ⇒ Governance of "default" and "lifestyle" investment choices.

Insurance

- ⇒ Can insurance funds provide long-term social finance?
- ⇒ Impact of the European insurance solvency directives
- ⇒ Whether sufficient "guaranteed" investments exist for insurers to continue increasing the volume of guaranteed annuities they offer.

CHALLENGES FOR UK FINANCIAL INSTITUTIONS

The Banking and insurance sectors

- ⇒ The serious difference in methodologies between banking and insurance on capital requirements, risk management
- ⇒ How to link reward to reducing risk (where appropriate)
- ⇒ Over-reliance on very complex and often opaque mathematical models
- ⇒ Lack of communicable technical expertise at Board level
- ⇒ How to ensure equity release providers have access to funding to meet potential demand and how to deliver equity release from the public sector
- ⇒ Devising appropriate use of liquidity premiums in insurance
- ⇒ Controlling Minsky's "laws".

Other institutions

- ⇒ Lack of technical oversight/support on capital, risk etc.

Raising finance for government

- ⇒ Matching the long-term providers of finance (pension funds, insurers) with the needs of Government (e.g. on outsourcing)
- ⇒ Increasing the range of available finance vehicles to reduce pressure on mainstream yields whilst achieving Government's other objectives.
- ⇒ Relationship between the swap curve and Bond yields
- ⇒ Applicability of STPR (Social Time Preference Rate).

ABOUT GAD

GAD provides actuarial analysis to the public sector from the public sector. Our aim is to be a highly valued principal provider of actuarial analysis and advice to all parts of the UK government and other relevant UK and overseas public bodies.

GAD is a Top Ten employer coming 8th in the Sunday Times “Best Places to Work in the Public Sector”.

Our services

Policy advice

- ⇒ Pensions
- ⇒ Demography
- ⇒ Social Security
- ⇒ Investment and Risk
- ⇒ Healthcare
- ⇒ Long-term care

International

- ⇒ Pensions
- ⇒ Social Security
- ⇒ Insurance

Public Sector Pension Schemes include

- ⇒ Teachers
- ⇒ Police/Fire
- ⇒ Local Government
- ⇒ Armed Forces
- ⇒ Coal Pensions
- ⇒ UK Atomic Energy
- ⇒ Staff Transfers

Insurance

- ⇒ Regulatory Support
- ⇒ Life and General

Contact details

Trevor Llanwarne (Government Actuary) 020 7211 2620

George Russell (Deputy Government Actuary) 020 7211 2666

Bill Rayner (Services Director) 020 7211 2975

e-mail: firstname.lastname@gad.gov.uk

London Office
 Finlaison House, 15-17 Furnival Street,
 London EC4A 1AB
 Switchboard: + 44 (0)20 7211 2601
 Enquiries: enquiries@gad.gov.uk

Glasgow Office
 Abbey Business Centre, The Beacon,
 176 St Vincent Street,
 Glasgow, G2 5SG
 Switchboard: + 44 (0) 141 249 6555