



## WELCOME FROM THE GOVERNMENT ACTUARY



Welcome to GAD's electronic newsletter, **e-News from GAD**. Once again, we have a range of articles covering both topical issues and news.

In particular, Bill Rayner provides details of our new Glasgow office. We warmly welcome Alison Murray and Anne Kershaw to the GAD team.

As always, back issues of e-News are archived on our website [www.gad.gov.uk](http://www.gad.gov.uk) and we very much value your feedback.

TREVOR LLANWARNE GOVERNMENT ACTUARY

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## NEWS FROM GAD

### SUNDAY TIMES BEST PLACE TO WORK

We are delighted to announce that GAD has been placed 8th in the Sunday Times Best Place to Work in the Public Sector. Full details are available [here](#).

### GAD CLIENT SATISFACTION SURVEY RESULTS

The results of our recent client survey are now available on our [website](#).

### SECONDMENTS

GAD continues to develop its relationships with key clients with further recent secondments to the Asset Protection Agency, HM Treasury and the FSA.

### NEW ACTUARIAL VALUATION SOFTWARE

We have switched to a new actuarial valuation software package, SuperVal, provided by Xafinity Claybrook. Following a public sector tender and a rigorous selection process, SuperVal was chosen for its functionality, quality of support, and future software development plans. The transition to the new software has already started, with about 20 staff already trained in SuperVal, and is expected to be substantively complete by the end of 2010.



Veronika Heinecke, Trevor Llanwarne (centre) and Simon Bancroft-Rimmer receive The Sunday Times Best Place to Work award.

### CONFERENCES

Trevor Llanwarne and Colin Wilson recently spoke at the Momentum Convention in Glasgow and Trevor will be a plenary speaker at the June Pensions Convention for actuaries on the topic of 'How to influence Government'.

### DWP REJECTS PROPOSAL FOR COLLECTIVE DEFINED CONTRIBUTION (CDC) SCHEMES

DWP recently published its research report into Employer Attitudes to Collective Defined Contribution Pension Schemes, which concluded that the Government should take no further action on CDC schemes. For full details, the report can be found [here](#). GAD's modelling can be found [here](#).

*"GAD IS STILL VERY MUCH ONE ORGANISATION"*

MARCH 2010



BILL RAYNER

CLIENT RELATIONS

## GAD ESTABLISHES NEW OFFICE IN SCOTLAND

The Government Actuary's Department opened a new office in Glasgow on Monday 25 January. Why? Because of demand from our Scottish clients for advice to be provided locally and because we felt it was the right thing to do.

At GAD, what our clients think is really important to us. Take these newsletters - we started providing them last year following feedback from our client survey in summer 2008. So when a number of Scottish clients expressed a desire for pensions and policy advice to be provided locally, we thought seriously about whether, and how, we could do this. The more we thought about it, the more logical it seemed, particularly when we considered the associated reduction in travel costs and the resulting environmental benefits.

Of course, although we now have two offices, GAD is still very much one organisation. We still have the same core values and our primary focus continues to be the provision of actuarial advice to the public sector.

With this in mind, coupled with our desire to meet the needs of our Scottish clients and contacts, we have appointed Alison Murray, an expert in providing local authority pensions advice, to lead the office in Glasgow.



Anne and Alison on their first visit to GAD's London Office

Alison qualified as an actuary in 1999 and has 15 years' experience working in pensions. More importantly, she has been providing actuarial advice exclusively to public sector organisations for the last seven years. We are also delighted to announce that Anne Kershaw, an actuary and investment consultant with a wealth of experience, will provide local support to Alison and her team.

Alison and Anne are already building strong links with colleagues in London. As Alison says, *"I've been really impressed at how friendly everyone is and how excited they are about the new office. I've never been so popular!"* Trevor Llanwarne agrees, *"This is a fantastic development for GAD. We are delighted to have been able to respond to this request from our clients in Scotland."*

**"SAME CORE VALUES"****"WHAT OUR CLIENTS  
THINK IS REALLY  
IMPORTANT TO US"****GOVERNMENT ACTUARY'S DEPARTMENT, Glasgow Office**

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*"NO-ONE KNOWS HOW THE WORLD WILL LOOK IN 50 YEARS' TIME."*

MICHAEL SCANLON

ADVICE TO GOVERNMENT

## GOVERNMENT'S LONG-TERM FINANCIAL PLANNING

Maintaining sound public finances is one of the Treasury's key Strategic Objectives.

The UK economy faces a number of strategic challenges, including an ageing population, climate change, and globalisation. These challenges have long-term implications for the public finances, for example:

- > an ageing population may lead to increased public expenditure on health or pensions
- > globalisation may impact on the size of the UK economy, which in turn would affect revenues.

The Government launched the Long-term public finance report in 2002 to provide analysis of long-term developments and their potential impact on the public finances. The latest report was published in December 2009 alongside the Pre-Budget Report. It contains projections of public expenditure over the next 50 years across a range of areas, including many of actuarial interest such as:

- > STATE PENSIONS
- > PUBLIC SERVICE PENSIONS
- > HEALTH
- > LONG-TERM CARE

***"SOPHISTICATED ENOUGH TO BE RELIABLE BUT SIMPLE ENOUGH TO PROVIDE TIMELY RESULTS"***

GAD is naturally well placed to assist with such long-term financial planning and, in particular, plays a key role in projections of state pensions and public sector pensions.

### STATE PENSIONS

State pensions, along with other benefits such as those paid on incapacity, bereavement and unemployment, are paid out of the National Insurance Fund. The Government Actuary reviews the operation of the National Insurance Fund at least every five years. This review considers the Fund's long-term financial position, taking account of the projected benefits to be paid and the National Insurance contributions to be received in the future. The latest review is due out this spring.

### PUBLIC SERVICE PENSIONS

The Government Actuary is also involved in projections of public service pensions. There are 7½ million members in Pay-As-You-Go (or unfunded) public service pension schemes, including teachers, NHS workers, civil servants, the armed forces, police officers and fire-fighters, all with different pension schemes. This means producing projections of the pension expenditure is challenging. We need to ensure that our models are sophisticated enough to be reliable but simple enough to provide timely results.

The National Audit Office has drawn significantly on GAD's projections in their [recent report](#) on the cost of public sector pensions. This report will help to inform the public debate about the affordability of public service pensions. The National Audit Office also intends to publish a second report later this year examining the recent changes in these pension schemes. These changes include the Government's 'Cap and Share' policy.

## CAP AND SHARE

It was agreed that public service pension schemes would introduce 'Cap and Share', following the agreement to introduce a Normal Pension Age of 65 for new entrants to the civil service, NHS and teachers' pension schemes. Cap and Share involves sharing increases in the cost of pension provision, such as improving longevity, between employers and employees up to an agreed employer contribution cap, beyond which further increases are the responsibility of employees. Any increased costs that fall to employees would result in either increased employee contributions or reduced benefits for future service or both. The cost of each scheme's provision will be assessed through the periodic scheme valuations that take place every 3 or 4 years.

The latest Long-term public finance report projections included allowance for 'Cap and Share' for the first time. This meant we had to consider the potential results of the schemes' future valuations. Providing an indication of the result of a valuation due next month or next year is not unusual, but doing the same for valuations due in 50 years' time is.

## RECOGNISING UNCERTAINTY

Of course, no-one knows how the world will look in 50 years' time, and no one possible view of the future will give the full picture. Both the review of the National Insurance Fund and the Long-term public finance report include projections for several different scenarios to illustrate and help to quantify the uncertainties.

For example, there have been significant improvements in life expectancy over the last century and the most recent data has shown faster rates of improvement than in the past. However there is no consensus among academics or actuaries on whether rates of improvement will stay the same, increase further or tail off. GAD provides projections based on higher and lower future life expectancies to illustrate the financial impact of these possible outcomes.

So although we do not know how the world will look in 50 years' time, we can consider a range of ways it might look to assess the potential impact of changes in demographics, and economic activity, on the public finances.

***"FOR MANY ORGANISATIONS LONG-TERM FINANCIAL PLANNING WOULD MEAN THE NEXT 5 YEARS, NOT THE NEXT 50."***

## HOW LONG IS THE LONG TERM?

For many organisations long-term financial planning would mean the next 5 years, not the next 50, but the Government is conscious of the long-term nature of its financial commitments. GAD has actuaries with experience across a wide range of fields who are proficient in finding innovative ways to help the Government's long-term financial planning.

*"THE NEW ARRANGEMENTS WILL COMMENCE IN THE TAX YEAR 2011-12."*

MARCH 2010



ALAN DORN

ADVICE TO GOVERNMENT

## PENSIONS TAX RELIEF FOR HIGH EARNERS

Pensions tax relief is a substantial benefit to savers, providing around £28 billion a year in forgone income tax revenues to government. However, around 25% of this money is captured by the 2% of savers who earn over £150,000 a year.

The Government believes this is unfair and is restricting the amount of tax relief which high-earners can claim on their pension contributions. [HM Treasury issued a consultation on its proposals](#), which ended on 3 March. In the Budget on 24 March it was announced that this restriction would come into force from the 2011-12 tax year. A [summary](#) of the consultation responses and the government's implementation plans is set out in a document issued alongside the Budget papers.

### DETAILS OF THE RESTRICTION

From 2011-12, anyone earning over £130,000 (*excluding* employer funded pension contributions) will have their tax relief restricted if their total income (*including* employer funded pension contributions) is over £150,000. Those with total income over £180,000 will have their tax relief restricted to the basic rate of 20%. Those with total income between £150,000 and £180,000 will have their tax relief gradually reduced, tapering from the marginal income tax rate of 50%, to 20%.

Anyone whose tax relief is restricted will have to pay a 'recovery charge' to HMRC on the value of both the employer and employee contributions. However, if the charge is over £15,000 the member may opt for their pension scheme to meet the charge, with their pension reduced accordingly.

**"FOR A DEFINED BENEFIT SCHEME COMPLEX CALCULATIONS WILL BE REQUIRED."**

### IMPLICATIONS FOR PENSION SCHEMES

Pension schemes will have to provide affected members with statements of the additional pension benefits earned in each tax year. They will also need to implement the consequent benefit reduction if the member opts for the Scheme to pay the recovery charge.

**"THOSE WITH TOTAL INCOME OVER £180,000 WILL HAVE THEIR TAX RELIEF RESTRICTED TO THE BASIC RATE OF 20%."**

The proposals are not expected to have onerous implications for defined contribution schemes. But for a defined benefit scheme complex calculations will be required. A value will have to be placed on the additional pension built up in the year for each affected member. This value will be based on increases in the member's pensionable service and/or pensionable salary, together with a table of valuation factors to be set by the Government on advice from GAD. The factors will vary by age and by normal pension age.

### TIMESCALES

The new arrangements will commence in the tax year 2011-12. In the meantime, the Government has introduced [anti-forestalling rules](#) to prevent high earners from circumventing the new rules by paying substantial contributions before April 2011.

*For more information, please contact your usual GAD contact. Alternatively Alan can be contacted on +44 (0) 20 7211 2622 or [alan.dorn@gad.gov.uk](mailto:alan.dorn@gad.gov.uk)*



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