



eNews from GAD

Welcome to eNews



Welcome to eNews! Over the last 100 years areas in which GAD actuaries contribute expertise has expanded significantly, moving away from our technical and compliance-based roots. In this edition of eNews, John Bayliss discusses such an example: his involvement supporting the government's defence of a recent discrimination claim.

Also in this edition is the second in our series of centenary 'deep dives', which look at the contributions GAD has made and continues to make in different areas of public life. We consider GAD's history in supporting public service pensions and its future evolving role. Finally, we report from our centenary lecture which set out challenges facing the UK's pension and social care systems, as well as identifying areas where future

contributions by actuaries are likely to be required.

Separately, I am pleased to confirm my reappointment to the role of Government Actuary for an additional 5-year term. As the department marks its centenary this year, I believe this sense of continuity is just as important as we continue to work on complex and long-term issues for our clients. You can read more about the work and role of the people in GAD in the latest edition of [Civil Service Quarterly](#).

I hope that you enjoy this issue. Previous issues of eNews are available on our [website](#).

Martin Clarke, Government Actuary

News from GAD

Focus on climate change

Climate change risk management was the central theme of a seminar which included speakers from GAD, the Prudential Regulation Authority and the Pensions Regulator. The event, in June 2019, was part of the relaunch of the Forum for Public Actuaries (F4PA). The F4PA is a GAD-led initiative that brings together student and qualified actuaries working across the public sector, providing opportunities to discuss and debate key issues that affect actuaries working in or alongside government.

GAD's annual report

The [Annual Report and Accounts 2018-19](#) is now available online. New commissions, modernised systems and flexible working methods are just some of the successes highlighted.

Help for stranded air passengers

Experts from GAD played a key role in the Airline Insolvency Review, which provided recommendations to protect consumers in the event of an airline or travel company failure. Analysis undertaken by our actuaries included estimating repatriation costs and examining cost implications of different financial options.



An actuary in court: reflections on the role of expert analysis

Equality is essential for people to fulfil their potential and for the creation of a cohesive society. Individuals may challenge policies through the courts if they feel that it discriminates against them. In his role as adviser to the Ministry of Housing, Communities and Local Government (MHCLG), GAD actuary John Bayliss helped support the government's defence of one such case. It related to the payment of pensions to unmarried partners. John shares reflections from his experience of providing expert analysis and advice to assist the court process.

Background to the case: pensions for unmarried partners

Historically public service pension schemes provided that, following the death of a member, the pension would be payable to the member's legal spouse (or civil partner). However, recently schemes have been reformed to extend these benefits to unmarried partners. As an example, the Local Government Pension Scheme (LGPS) provides pension to unmarried cohabiting partners from April 2008, but this does not apply to members who left employment before that date.

The claimant, Ms Harvey, was the partner of an LGPS member who left employment in 2003 and died in 2016. So, under the rules of the scheme, she was not entitled to an unmarried partner's pension upon the death of her partner. Ms Harvey contended that the refusal to pay her a pension amounted to unlawful discrimination and a breach of her human rights, as she was treated differently to a legal spouse.

Case for the defence

A multi-disciplinary team was assembled to defend this challenge, consisting of policy officials and lawyers at MHCLG, litigation experts at the Government Legal Department and external Counsel.



The case was heard over 2 days in the imposing surroundings of the Royal Courts of Justice. We had to go through strict airport style security to get in, the building has a sense of history as you walk through the corridors and climb the staircases. Observers were able to come and go into the court room as they pleased, which surprised me; there was a strictly no mobile phone policy, which did not.

The team identified a clear trail of documentation that set out the development of the policy over the years, which is critical in justifying any difference in treatment.





Expert witness

The claimant asserted that the costs of extending pensions to unmarried partners would be tiny, compared to the size of the overall scheme. MHCLG asked GAD to prepare a witness statement estimating the potential costs.

Successive generations tend to be more likely to be in an unmarried relationship than their predecessor generations (e.g. for people born between 1944 and 1948 about 5% are co-habiting but for those born between 1954 and 1958 that has increased to about 10%) and that proportion appears to stabilise after people reach their mid-forties (see chart).

Proportion of UK couples neither married nor in a civil partnership at ages 55-60, by year of birth



Source: Office for National Statistics

Based on this, I estimated the potential cost (in terms of a present value) for the LGPS would be in the range of £600 million to £1,100 million on the basis described in my witness statement. This cost would rise to somewhere in the range of £2.5 billion to £4.5 billion if all public service pension schemes were affected.

Judgment

The High Court ultimately dismissed the challenge. The judge, Mr Justice Knowles, took issue with the assertion that the costs were 'tiny', stating in the judgment 'the broader impact on the public purse, and on other LGPS members, if the claimant were to receive the benefit she contends for, would be very significant'.



Reflections

Being involved in a court case is very interesting. But it has the potential to be stressful, and of course the outcomes are uncertain. I have taken the following thoughts away from this experience:

- 'an ounce of prevention is worth a pound of cure' - the audit trail found by MHCLG was crucial and shows the importance of careful consideration of equalities issues as policy is developed
- lawyers love documents - any email you have ever written is potentially disclosable and could be used in evidence against you - it is well worth thinking twice before you hit send!
- times change - when pensions for widows and later widowers were first introduced, the possibility of legal challenge from an unmarried partner probably seemed remote so policies need to be defensible both now and, in the future

To discuss any aspect of this article further please contact enquiries@gad.gov.uk



Centenary deep dive: GAD's role in advising on public service pension schemes

To celebrate GAD's centenary, eNews is running a series of 'deep dives' into key areas in which our actuaries contribute. A core source of GAD's work is providing advice in relation to public service pensions. With government expenditure on unfunded public pension schemes in excess of £40 billion each year this is both high-profile and of high national importance. This article looks at how the role of GAD pensions actuaries has evolved to remain relevant in the changing pensions landscape.

Public pensions

The origins of public service pensions can be traced back more than 2,000 years to Ancient Rome, where the first pensions were paid, out of taxation, to military personnel. Closer to home, the first UK public service scheme is thought to have been introduced in the late 17th century, to provide benefits to retired Naval officers.

Now, in 2019, more than 5 million UK workers (around 20% of the active workforce) are employed by the public sector, with the majority of these members of the public service pension schemes. Their sheer scale means the schemes have great financial significance and therefore require high quality actuarial advice to ensure they are well managed. The timeline below sets out many of the key dates for public pensions over the last century.

Rapid growth

GAD's role in the pensions sphere was initially mainly providing actuarial advice to meet requirements set out in legislation. The 1925

Pensions Act which signalled the start of the Government Actuary's official role stipulated the need to oversee regular actuarial valuations of public schemes, alongside other statutory responsibilities.

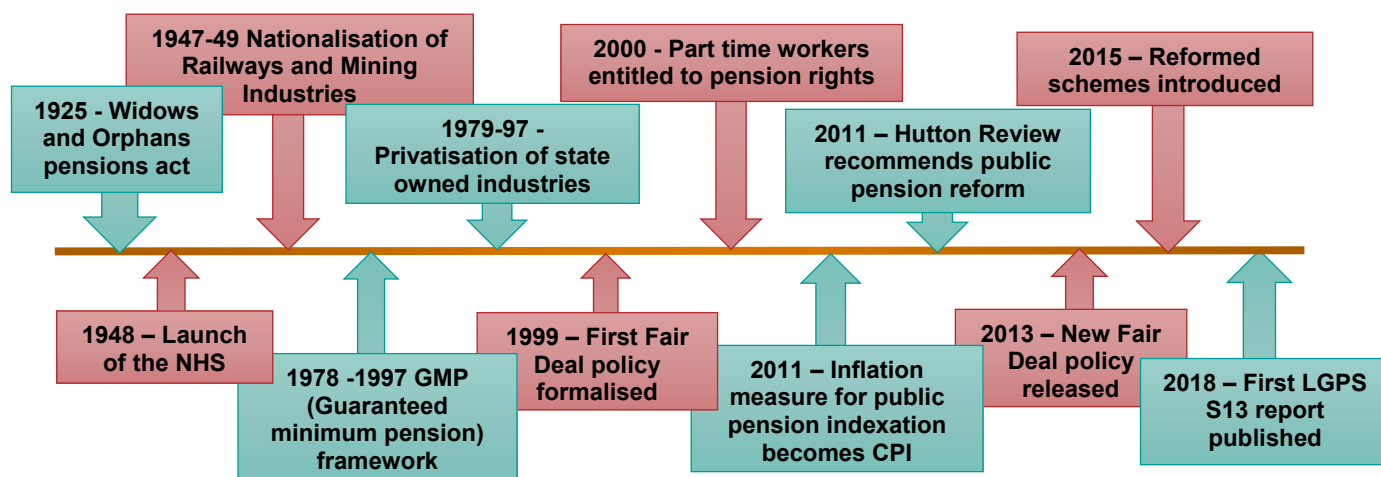
Since then, a rapid growth in the size and fiscal significance of public service pension schemes, alongside increased regulatory and disclosure requirements, has led to a significant expansion of GAD's role.

In turn the greater variety in our work has helped accelerate a move away from our highly technical and compliance-based roots, with modern GAD actuaries now requiring a far broader business skillset including advanced consultancy and communication skills.

The changing pension landscape

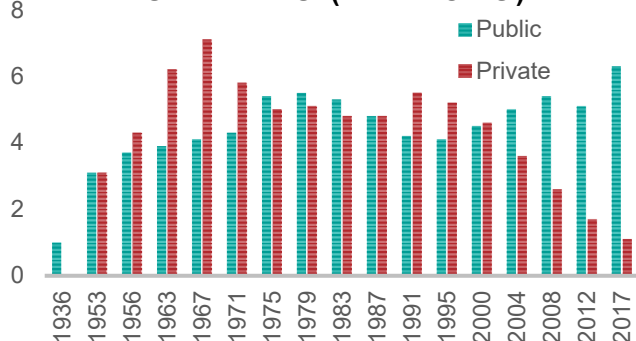
Up until the turn of the 21st century active membership of defined benefit (DB) schemes in the private service broadly reflected that in the public service. However, this landscape has been changing (see graph overleaf).

TIMELINE OF KEY EVENTS FOR PUBLIC SERVICE PENSIONS





ACTIVE MEMBERSHIP OF DEFINED BENEFIT PENSION SCHEMES (MILLIONS)



Source: Office for National Statistics

In June 2010, the government established an Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, to consider *“the long-term affordability of public sector pensions, while protecting accrued rights.”* This led to the [Hutton Report](#), published in 2011, which recommended that public sector employees retained the right to accrue defined benefit pensions, albeit with scheme revisions designed to improve affordability and better manage the financial risks to the generations of taxpayer to come.

Future proofing public pensions

GAD played a key role in advising on the implementation of the Hutton reforms through the setting up of new “2015 schemes”. This involved:

- transitioning away from final salary benefits to alternative career average arrangements
- aligning the age at which benefits are payable to match state pension age

The government also introduced a new framework to monitor the costs of the new benefits on an ongoing basis. Built in mechanisms allow changes to future benefits to be made if necessary to ensure the overall taxpayer cost remains affordable.

Wider contribution

In addition to supporting the management and reform of public service schemes, GAD’s pension actuaries play a key role assisting policy makers across a diverse range of pensions’ challenges.

Some examples of wider areas our actuaries have contributed to are:

- **Protecting pension rights for outsourced employees** – GAD have been advising government departments on the requirements of [Fair Deal](#) since the late 1990s, ensuring that the pension rights for public sector employees involved in a compulsory transfer of staff are protected
- **Advice on pension privatisation** - GAD provided extensive advice to Government on the pensions solution which formed part of the privatisation of Royal Mail. This included advice in relation to the benefits to be provided by a new statutory pension scheme, as well as administration requirements, financing, and the transfer of assets to Government
- **Aiding transparency** – Since 2013 GAD have had a key role analysing funding valuations and employer contribution rates for each of the 91 separate Local Government Pension Scheme (LGPS) funds in England and Wales. Our resulting [Section 13 report](#) allows simple comparisons between funds to be made. See our previous eNews article for more information



Future of public service pensions

Public service pensions will no doubt remain a substantial part of public expenditure and an important benefit for millions of public servants for many years to come. Through bolstering our existing offerings to incorporate latest data visualisation and interactive decision-making techniques, and reacting swiftly to new developments such as the recent transitional protection judgment, GAD will continue to provide high quality advice which aids government in meeting the challenges ahead.



Centenary lecture

Virtually 100 years to the day GAD was formed, the department hosted its centenary lecture. This article reports from the event, a lecture on the UK's pension and social care systems delivered by the Director of the [Institute for Fiscal Studies \(IFS\)](#) - Paul Johnson CBE.

An actuarial centenary

The centenary lecture on 6 June 2019, marked 100 years of actuarial advice in government. Fittingly, it was held at [Staple Inn](#), the historic home of the actuarial profession. An audience of GAD clients, stakeholders and senior civil servants from across the government's analytical professions were treated to an engaging and insightful presentation by [Paul Johnson](#) our keynote speaker.



Figure 1 - Government Actuary Martin Clarke is pictured above with 2 of his predecessors, Chris Daykin (left) and Trevor Llanwarne (right)

Sharing a wider perspective

Social security and pensions policy are key areas in which GAD actuaries advise. Paul brought insights from IFS research on public policy to illustrate the progress to date and challenges ahead in dealing with pensions, health and social care provision. In doing so his talk incorporated many risk areas with direct relevance for both GAD and our clients.

Challenges of an ageing society

In celebration of society's achievements during the last century Paul said:

"Increased longevity has been one of the great triumphs of the past century. Getting and keeping pensioner poverty down from the levels seen prior to the mid-1990s is another..."



Figure 2 - Keynote speaker Paul Johnson addresses the audience

He cautioned that our 'ageing society' creates new challenges for the future, which will require decisive action to overcome:

"But [there will need to be] brave decisions in the near future, to ensure that our health, pensions and social care systems are not just financially sustainable, but also share risks and costs appropriately across and between generations."



Figure 3 - Clients, stakeholders, and senior civil servants were in attendance at the Centenary Lecture

A new century of learning

To ensure the continued relevance of its advice GAD prides itself on being a learning organisation where stimulating discussion and debate are commonplace. The success of our centenary lecture illustrates this ethos in practice and sets a firm foundation for a century of learning to come.

Paul Johnson's [comments](#) were widely reported in a range of media outlets.



Recent developments

New Actuaries' Code now in force

An updated version of the [Actuaries' Code](#) came into force recently, with 'speaking up' now included as a stand-alone principle, alongside the existing principles of integrity, competence and care, impartiality, compliance and communication. As members of the Institute and Faculty of Actuaries (IFoA), GAD's actuarial staff comply with a range of professional standards, with the Actuaries' Code a key pillar of this regime. The Code, which sets out an ethical code of conduct that all members of the IFoA must adhere to, is designed to support members in adhering to high standards of professional and personal conduct, while also protecting the public interest and assuring trust in the actuarial profession.

Pension Dashboards

The Department for Work and Pensions has [published details](#) of how the government will support the pensions industry to deliver online pensions dashboards. Pension dashboards will allow people to see information from multiple pension arrangements, all in one place. Driven by future legislation it is expected that the majority of schemes will be ready to 'go live' with data within a 3 to 4-year window, with State Pension information incorporated as soon as possible. Alongside this, the newly established [Money and Pensions Service](#) will also be delivering a non-commercial dashboard.

Whole of Government Accounts

HM Treasury has published the [Whole of Government Accounts](#) for the year ended 31 March 2018. Consolidating the audited accounts of over 7,000 organisations, these accounts have a wider scope than other National Accounts measures and provide a mechanism for holding government to account for its long-term financial performance. The Whole of Government Accounts include contingent liabilities – liabilities that are unlikely and will not crystallise unless a specific event occurs. For some of these liabilities, the chance of them becoming due is considered remote, so the accounting standards do not require their disclosure. However, they are included in the accounts of government departments to provide better transparency of fiscal risks.

2018 Occupational Pension Schemes Survey

Results from the Office for National Statistics [2018 Occupational Pension Schemes Survey](#) (OPSS) provide information about private and public sector occupational pension schemes registered in the UK. This includes data on the membership of schemes and contributions paid. Total estimated membership of occupational pension schemes was the highest level recorded by the OPSS - an estimated 45.6 million in 2018, compared with 41.1 million in 2017. Of 17.3 million active members, 6.3 million were members of public service pension schemes.

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