IACA Conference, South Africa 1998
National Report for the United Kingdom

Prepared by the Association of Consulting Actuaries

Actuarial Profession

Actuaries in the UK are members of either the Institute of Actuaries or the Faculty of Actuaries. Almost all of the activities of these professional bodies are now carried out jointly. The Institute and Faculty working in concert are thus the actuarial professional body.

The Association of Consulting Actuaries draws its membership from individual actuaries who are Fellows of the Institute or Faculty or have an equivalent overseas qualification. Membership of the ACA now exceeds 1,100, out of around 3,500 UK based Fellows. Most but not all consulting actuaries join the ACA and consulting is reckoned to account for between 40% and 50% of actuarial activity (compared with about 5% in the 1950s).

Areas of Activity

The main areas of Consulting activity are reflected in the Committees of the ACA which comprise:

- Pension Schemes
- Pension Taxation
- Accounting Standards
- Local Government
- Small Self-Administered Schemes
- Flexible Benefits
- International
- Investment
- Healthcare
- Life Insurance
- General Insurance
- Corporate Finance and Risk
- Damages, Reversions and Divorce

There is also a Public Relations Committee

Professional Liability Issues

Liability for professional negligence has become an area of increasing concern, although actuaries in the UK have had less difficulty than accountants. The actuarial firms have been content to let the major accounting firms do the major lobbying of Government for changes.

Professional indemnity insurance remains available although rates could have been expected to increase significantly had a recent large claim not been successfully defended by one of the major consulting firms.

There has been considerable pressure on Government to introduce a new form of corporate body, the Limited Liability Partnership. The authorities in Jersey have already introduced some enabling legislation, with substantial support and encouragement from one of the big six accounting firms, and it is hoped the UK Government will introduce similar legislation to avert moves by accounting firms in particular to move offshore.

The introduction of LLPs is likely to entail greater disclosure of financial affairs, including financial reporting to GAAP standards, and also the deposit of a substantial bond (£5 million in the case of the Jersey legislation). The regulation of LLPs would involve a Recognised Supervisory Body (most naturally the Institute or Faculty in the UK).

Education

Examination for the Fellowship of the Institute or Faculty of Actuaries is carried out by the Institute and Faculty jointly. There are nine subjects. A - D cover mathematical, statistical and financial techniques, and E - H cover investment and asset management, life insurance, general insurance and pension funds. There is also a Fellowship paper in which the student takes one of the latter four subjects together with a paper of general actuarial interest.

Tuition for the examinations is provided through the Actuarial Education Company (ActEd). Tuition is largely by correspondence courses, but tutorials and revision courses are also available.

Some of the UK universities offer actuarial science degrees or full-time post-graduate diploma courses covering subjects A - D.

Social Security

State pension provision currently comprises two elements - a State basic pension and a State earnings-related pension. It is possible to contract-out of the State earnings-related pension scheme (SERPS) through membership of either an occupational pension scheme or a personal pension. In return National Insurance contributions are reduced for employees and employers.

Following the Pensions Act 1995, contracting-out through an occupational pension scheme can either be through the scheme meeting a Reference Scheme Test (RST) - ie its benefits have to be of a certain quality, or by investment of the National Insurance contribution reductions in money purchase benefits. The reductions are uniform for the RST, but age-related for the money purchase benefits.

Following a change of Government in 1997, a wide-ranging Pensions Review has been initiated. Possible outcomes might include

- abolition of SERPS
- compulsory contributions
- a change in the level of State basic pension

The Government is in any case committed to introducing 'Stakeholder Pensions'. These are intended to be low-cost, simple collective money-purchase arrangements suitable for the part of the workforce not currently covered by occupational or personal pensions. The Government is consulting on all aspects of this concept, and it is too soon to say what form stakeholder pension schemes might actually take.

Pension Schemes

The last few years have continued to be extremely busy for consulting actuaries working in the pensions field in the UK. As well as the main provisions of the Pensions Act 1995, there was a significant change in the taxation of pension schemes and the continuing overhang of work relating to mis-sold personal pensions from the early 1980s.

Taxation Change

With effect from 2 July 1997, a change was made to the taxation of UK equity share dividends. Before that date, pension schemes could reclaim a tax credit of 20% on each dividend paid (itself a reduction from the 25% credit which applied prior to 1993). The new Labour Government's first budget abolished this credit entirely. The majority of actuaries continue to favour valuation methods which take assets into account using a discounted income method. The value of reduced investment income in future (equivalent to about 0.5% per annum for a typical scheme) is therefore capitalised in the actuarial valuation and this has led to widespread concern about the resulting solvency of UK schemes. The effect is exacerbated because of the continuing high equity content of UK scheme investment portfolios, with the typical scheme holding one-half of its assets in UK equities.

As well as stimulating a debate in the profession about the appropriateness of dividend based asset valuation methods, the tax change took effect less than three months after the main provisions of the Pensions Act came into force. This caused some degree of chaos in the application of the Minimum Funding Requirement and in the calculation of cash equivalent transfer values (see below).

Pensions Act 1995

Nearly all of the provisions of the Pensions Act 1995 came into effect from 6 April 1997. Previous reports to IACA Conferences have commented on the legislative process starting with the Goode Committee and leading to the Act itself. The main provisions of the Act, and their impact on the consultancy profession are as follows.

- A requirement for Member Nominated Trustees. Anecdotal evidence suggests that most employers have chosen to "opt out" of the requirement for one-third member representation by putting forward alternative proposals and getting membership approval for them. It remains to be seen how this increased member involvement will impact on the work of consulting actuaries.

- The Act makes it mandatory for Trustees to appoint an individual (not a firm) to act as the Scheme Actuary, with defined responsibilities. These responsibilities include an obligation to report any breach of regulation to the newly formed Occupational Pensions Regulatory Authority (OPRA). The ACA has had extensive debate with OPRA about their requirements - which place considerable professional responsibility on actuaries although, so far, without much helpful guidance from OPRA.

- The Act requires that scheme trustees draw up a Statement of Investment Principles ("SIP") for their scheme. This may be a page of key points or a short book setting out the detail of the intended investment strategy. So far, experience is that trustees are documenting their existing strategies and that the SIP has not in itself influenced that strategy - although with input from ACA member firms some greater rigour in setting benchmarks and performance targets has been apparent.

- The new terms on which occupational schemes may contract out of the State Earnings Related Pension Scheme ("SERPS") were announced. Most defined benefit schemes are contracted out using the Reference Scheme Test. This has introduced a new requirement for actuaries in certifying that scheme benefits meet the required standard. It has also caused some minor re-design of UK schemes to comply with the Reference Scheme Test. A minority of schemes have contracted out using the alternative route of providing a defined contribution underpin in lieu of SERPS. Although administratively complex, this generates a significantly higher rebate of National Insurance contributions. Again, the ACA has been involved extensively in consultation with the Government about these terms. Despite early warning from the ACA about the dangers of such a differential system, the Government realised only late in the day the potential impact on their revenues if schemes switched from Reference Scheme contracting-out to money purchase contracting-out. There was a threat to prohibit or restrict the flexibility for this to occur although so far this has not materialised.

- A Minimum Funding Requirement ("MFR") on a basis prescribed in Regulations and Professional Guidance. Assets are taken at their market value; with pensions valued using a bond-based discount rate and other discontinuance liabilities valued mainly by reference to the return from equities. Experience in the practical application of the MFR is limited since few schemes have yet had post-April 1997 valuations. The abolition of the dividend tax credit caused some consternation: the quantification of active member liabilities

depends critically on the quoted dividend yield and this dividend yield had ostensibly fallen by 20% overnight. The Institute and Faculty of Actuaries have agreed a short-term solution which leaves the MFR unchanged. But a fundamental review of the MFR is now required and, in its absence, there is considerable uncertainty for scheme trustees and their sponsors.

- There is a requirement that transfer values for individuals leaving a defined benefit scheme should be calculated on a basis at least as favourable as the MFR. This was the first test of the MFR in practice. Because of the complexity of the calculations, and the very short notice which consulting actuaries had to establish calculation routines, it has been a difficult task to comply with the statutory deadlines for calculating transfer values. Again, this was not helped by the tax change in the budget. Normal service is only now being resumed after a short extension to the statutory deadlines was announced by OPRA and after considerable efforts by actuaries and software suppliers.

Accounting Standards

The debate about the revisions to the UK Standard SSAP24 are ongoing. Proposals from the UK Accounting Standards Board appear to be at odds with proposals from the International Accounting Standards Committee for a revision to the international standard IAS19. In particular, the greater flexibility in the UK standard, and the ability to use long-term assumptions rather than those related to market conditions at a point in time are not in line with the proposed international standard. At this point the revised IAS19 is expected to prescribe the use of corporate bond yields for the discount rate in calculating the present value of liabilities, together with the use of market value for the assets (with the approach to recognition of actuarial gains and losses not yet settled). The UK ASB is expected to support the use of market value for assets but rely on guidance from the actuarial profession on the discount rate. The debate continues.

Personal Pension Mis-selling

Reference is made in the life insurance section to problems over the selling of personal pensions. Consulting actuaries have continued to be involved in advising providers of personal pensions, individual policyholders and occupational schemes in order to assess the compensation required by individuals who have lost out by their choice of a personal rather than an occupational scheme. Further guidance from the SIB and its subsidiary regulatory organisations has been made available and the new Government has been turning up the heat to encourage more rapid settlement of priority cases.

Further Pensions Review

A further wholesale review of pension provision in the UK was announced by the Government in the summer. An initial consultation paper canvassed opinions on the future for State and private arrangements. Again, the ACA has actively participated and made a full submission to the consultation team.

The main focus of this review is likely to be in reforming individual (rather than occupational) pension arrangements - particularly by introducing a "stakeholder pension". At this stage little is know about "stakeholder pensions" except their name - but the development of a simplified, low-cost, defined contribution savings vehicle is at the heart of the proposals. Questions about the legal structure of such a pension arrangement, how it would interact with the State Scheme (for instance by making it compulsory as an alternative to the State Earnings Related Pension Scheme), and the tax reliefs given to such a scheme remain unclear. The ACA intends to make a further submission building on our experience in both pensions and life insurance markets.

Life Insurance

The UK life insurance industry, involving over 230 insurers, has been subject o fierce corporate activity in recent years. 1997 has seen several major changes in which actuaries have taken central roles either as independent valuers or advisers, namely the demutualisation and flotation of Norwich Union, and Prudential's acquisition of Scottish Amicable. Further concentration in the market is expected in coming years. Banks and building societies have rejected their role of tied agencies and have set up life companies of their own.

The growing use of non-traditional sales channels is increasing. Apart from the more traditional sales techniques such as direct sales forces, tied agents and brokers, companies such as Direct Line, who have made their name offering personal lines insurance via the telephone, have now entered the life insurance market. Virgin Direct has also become established as a major player in the direct sales field. Having been particularly successful in the Personal Equity Plan market (savings rather than life business), they have now turned their attention to personal pensions and are offering very competitive products. The emergence of such organisations promises increased competition in the market.

The effects of the Financial Services Act, which introduced the regulation of financial services, are still being felt almost a decade after its enforcement. Improved selling practices brought about by the FSA have certainly aided the change in distribution methods. It has also resulted in the availability of a greater range of products being offered by today's insurer, including unit trusts and banking services. Again, actuaries have had a significant role in these developments.

Personal Pensions Mis-selling

Less fortunately, however, the industry is still being plagued with the mistakes of the past. The vast mis-selling of pensions during the late 80s and early 90s encouraged policyholders to leave occupational pension schemes and this has left the industry facing heavy fines and compensation payments. The introduction of personal pensions in 1988 included the right of individuals to opt out of occupational scheme membership. Coupled with a commission-based intermediary system, this created problems which were not recognised, until 1993, the key regulator, the Securities and Investment Board ("SIB") realised that scheme members had been encouraged to act against their own best interest, and should now be reinstated or compensated. The complications associated with this huge problem is demanding actuarial expertise and has taken much longer to resolve than

anticipated. Compliance problems are becoming increasingly common in the current regulatory environment.

Trends

Overall, the future will see the consulting actuary's role expand and diversify within a financial services market which recognises and values the actuary's flexibility of resources, expert knowledge and skills. Given the broad range of demand, actuaries will have to develop and specialise their abilities in order to serve their clients' changing needs.

Activity in the life insurance market shows little sign of slowing down as sizeable projects materialise entering the twenty-first century. In such an IT-intensive industry, the Year 2000 problem will have significant impact on firms and inclusion of the UK in EMU could mean a $1 billion cost of conversion across the industry. General preparation and impact assessment programmes are already under way. Even if the UK were to remain outside of EMU, with such a reliance on the global market and operations in participating countries, acceptance of the Euro by UK insurers is essential if they wish to retain their position in the international field.

Healthcare

The UK has had a National Health Service ("NHS") since 1948. Access to healthcare is through General Practitioners without charge. Fees are charged for prescriptions, surgical appliances, dental checks and treatment, as well as eye tests, although there are extensive exemptions for all of these.

Costs are controlled by rationing of services, sometimes giving rise to long delays or referral to a consultant for subsequent treatment. In recent years, there has been a lot of pressure to bring down waiting times, resulting in added funds being directed by Government to treat those who have been waiting more than a year for treatment.

The NHS is operated as an internal market, with health authorities contracting to buy services from providers. Hospitals now operate as self-administered trusts and have to balance their income and expenditure.

In addition to the National Health Service, there is a vigorous private sector, mainly funded through private medical insurance, both individual and group. Private insurance enables rapid referral to consultants and for treatment. Private treatment is available both in private and NHS hospitals and clinics.

Care for the elderly is provided through the Social Security system unless the patient is in hospital for treatment. Care for the elderly, whether at home or in a nursing home, is means tested, the entire cost being met by the individual until he/she has less than £16,000 assets remaining.

Trends

With the change of Government in May 1997, the organisation of the NHS is to be reviewed. The new Government intends to do away with the internal market within the NHS and replace this with a system which places more emphasis on treatment. Details of possible changes have just been published. The Government is not committed to higher expenditure on the NHS but hopes to achieve a greater spend on treatment by saving on bureaucracy.

Long-term Care

The financing of long-term care for the elderly remains an unsolved issue. The new Government has established a Royal Commission to review all aspects of long-term care. No progress can be expected for at least a year. However, the continuing trend of discharging patients from hospitals (where there are no charges) to nursing homes (where payment of charges is means tested) or back home leaves a major problem to be addressed by the Royal

Commission. Long-term care insurance has yet to take off to any significant extent in the UK and is unlikely to do so while uncertainty remains over the Government's future expenditure commitment for long-term care.

Current Consulting Issues

The private insurance sector continues to bring consulting opportunities in respect of new entrant insurers as well as to existing insurers who wish to introduce new products.

Consulting opportunities to the NHS have in the past been limited but the ever-increasing pressure on expenditure may provide consulting opportunities where actuarial techniques can be applied to improve efficiency.

On the employee benefit front, demand for healthcare consultancy has been steadily increasing in recent years, with rapidly increasing premium rates and the introduction of Insurance Premium Tax acting as catalysts. While the direct spend on private medical insurance is small in the UK in relation to total employee benefit costs, there is considerable scope for consultancy on wider employee healthcare issues.

General Insurance

Composition of the Market

The market reflects actuaries' involvement both in UK domestic business as well as international business written through London. There are some 500 UK actuaries who spend a significant amount of time in the general insurance field.

Trends

The market is becoming increasingly sophisticated in all areas as more companies and consultants devote resources in this area. Lloyd's is providing an increasing amount of work, including our first statutory role in the UK where for the first time this year Lloyd's syndicates will require an actuarial opinion on their business. More actuaries are becoming involved in capital allocation issues as well as rating and reserving activity.

Current Trends

The recent rapid expansion is likely to slow somewhat as most organisations now have access to some form of actuarial advice. Nevertheless, the demand for general insurance actuaries is still expanding as the need for increasingly sophisticated services is required.

Competition for good quality experienced actuaries is still strong as demand exceeds supply. Consultants are also seeing pressure from companies taking more routine activities in-house and looking to provide in-house underwriting support.

Investment

Investment continues to be a significant area of involvement for consulting actuaries in the UK. The services provided include

- performance measurement
- manager selection
- advice on management structure
- asset liability modelling

Many UK pension funds are large and mature and considerable attention is given to debating issues such as

- balanced or specialist management
- number of managers
- passive versus active management
- asset allocation benchmarks
- rebalancing processes.

As noted elsewhere the Pensions Act 1995 requires the Trustees of UK pension schemes to have a "Statement of Investment Principles" and to seek the advice of an investment adviser. Consulting actuaries have usually filled this role.

The Minimum Funding Requirement introduced by the Pensions Act involves an asset model using only two asset classes, UK equities and UK bonds, and typically a higher bond content in the model than in the actual investment strategy. This has required careful analysis of the extent to which the asset allocation increases the risk of onerous contribution requirements in future years. Some Trustees have responded by switching from equities into bonds to some degree.

The level of equity markets, coupled with the withdrawal of tax credit on ACT referred to earlier, and the moves in both UK and International accounting standards towards market value approaches to valuation has generated a debate about valuation methods and the extent to which the equity risk-premium should be taken credit for in funding bases. Typically actuaries take credit for returns on equities up to 2.0% higher than on bonds and regard this as sufficiently prudent relative to historical excess returns from equities, which have been much higher. Some financial economists argue that no premium should be used - a fertile area for debate!

Economy

The attached tables, reproduced with permission from Watson Wyatt, show some key economic statistics for recent years.

January 1998

Table I

% Annual Inflation - General Index of Retail Prices

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1991	9.0	8.9	8.2	6.4	5.8	5.8	5.5	4.7	4.1	3.7	4.3	4.5
1992	4.1	4.1	4.0	4.3	4.3	3.9	3.7	3.6	3.6	3.6	3.0	2.6
1993	1.7	1.8	1.9	1.3	1.3	1.2	1.4	1.7	1.8	1.4	1.4	1.9
1994	2.5	2.4	2.3	2.6	2.6	2.6	2.3	2.4	2.2	2.4	2.6	2.9
1995	3.3	3.4	3.5	3.3	3.4	3.5	3.5	3.6	3.9	3.2	3.1	3.2
1996	2.9	2.7	2.7	2.4	2.2	2.1	2.2	2.1	2.1	2.7	2.7	2.5
1997	2.8	2.7	2.6	2.4	2.6	2.9	3.3	3.5	3.6	3.7	3.7	3.6

Table II

% Increase in Annual Earnings. Monthly Index of Average Earnings

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1991	9.2	9.4	8.6	8.6	8.1	7.2	7.7	8.2	7.8	7.6	7.7	6.5
1992	7.0	7.5	8.7	6.2	6.4	6.1	5.6	5.0	5.0	6.1	4.6	5.0
1993	4.5	4.3	3.3	4.0	3.7	3.5	3.8	3.1	2.9	2.1	3.1	3.1
1994	3.6	4.5	4.4	3.6	4.6	3.8	3.8	3.9	3.9	3.9	3.3	4.5
1995	3.8	3.2	4.3	3.8	2.7	3.1	3.1	3.2	3.1	3.6	3.7	2.8
1996	3.3	3.9	4.0	4.1	3.1	3.9	4.1	3.7	4.2	3.7	4.0	4.9
1997	4.9	4.1	4.4	4.2	4.2	4.2	4.3	4.6	4.1	4.4*		

* Provisional

Note: The index used is the Average Earnings All Employees GB; all industries and services covered.

Table III

Bank Base Rates

Date in Force (inclusive)					Base Rate % Per Annum	Date in Force (inclusive)					Base Rate % Per Annum
5	May 1992	-	15	September 1992	10	13	December	-	17	January 1996	6½
16	September	-	16	September	12	18	January	-	7	March 1996	6¼
17	September	-	21	September	10	8	March	-	5	June 1996	6
22	September	-	15	October	9	6	June	-	29	October 1996	5¾
16	October	-	12	November	8	30	October	-	5	May 1997	6
13	November	-	25	January 1993	7	6	May	-	5	June 1997	6¼
26	January	-	22	November	6	6	June	-	9	July 1997	6½
23	November	-	7	February 1994	5½	10	July	-	6	August 1997	6¾
8	February	-	11	September	5¼	7	August	-	5	November 1997	7
12	September	-	6	December	5¾	6	November	-		Current	7¼
7	December	-	1	February 1995	6¼						
2	February	-	12	December 1995	6¾						

Note: The rate shown at any given date is the rate charged by most of the major clearing banks at that date.

Table IV

UK Equity Dividends, RPI and Earnings

	% Increase over year to:											
	31 March			30 June			30 September			31 December		
Year	UK Equity Dividends	RPI	Earnings	UK Equity Dividends	RPI	Earnings	UK Equity Dividends	RPI	Earnings	UK Equity Dividends	RPI	Earnings
1986	11.3	4.2	8.5	10.1	2.5	8.0	11.7	3.0	6.1	14.1	3.7	7.4
1987	12.6	4.0	6.6	11.3	4.2	7.7	12.4	4.2	7.8	11.4	3.7	8.7
1988	13.9	3.5	9.6	14.8	4.6	8.1	15.4	5.9	8.5	16.1	6.8	10.8
1989	15.6	7.9	8.8	18.0	8.3	9.3	16.6	7.6	9.7	17.0	7.7	7.3
1990	18.3	8.1	9.4	16.4	9.8	10.4	14.9	10.9	9.6	10.5	9.3	10.1
1991	6.6	8.2	8.6	6.3	5.8	7.2	5.7	4.1	7.8	5.6	4.5	6.5
1992	4.1	4.0	8.7	0.6	3.9	6.1	-1.3	3.6	5.0	-0.5	2.6	5.0
1993	-1.5*	1.9	3.3	-6.0	1.2	3.5	-3.8	1.8	2.9	-4.4	1.9	3.1
1994	-1.0†	2.3	4.4	6.4	2.6	3.8	6.4	2.2	3.9	7.9	2.9	4.5
1995	10.2	3.5	4.3	10.9	3.5	3.1	11.0	3.9	3.1	12.0	3.2	2.8
1996	9.7	2.7	4.0	9.2	2.1	3.9	10.1	2.1	4.2	9.9	2.5	4.9
1997	8.8	2.6	4.4	8.5	2.9	4.2	5.9	3.6	4.1	3.4	3.6	

* -7.7 allowing for change in ACT

† 5.6 allowing for change in ACT

Table V

Investment Statistics - Yields

Year	31 March			30 June			30 September			31 December		
	UK Gilts %	UK Index Linked %	Sterling Cash %	UK Gilts %	UK Index Linked %	Sterling Cash %	UK Gilts %	UK Index Linked %	Sterling Cash %	UK Gilts %	UK Index Linked %	Sterling Cash %
1986	9.00	3.81	11.75	9.42	3.47	10.44	10.37	3.72	10.00	10.24	3.87	11.31
1987	9.16	3.36	9.87	9.18	3.80	9.37	9.95	4.15	10.13	9.55	3.98	8.37
1988	9.03	3.76	8.50	9.56	3.86	8.00	9.35	3.90	11.50	9.39	3.79	12.63
1989	9.34	3.52	12.63	9.72	3.73	13.63	9.72	3.61	14.06	9.78	3.61	15.00
1990	11.57	4.12	14.87	10.96	4.21	15.00	11.66	4.35	14.87	10.66	4.18	14.25
1991	10.12	4.14	12.75	10.38	4.36	11.63	9.48	4.22	10.63	9.60	4.45	10.75
1992	9.77	4.57	10.25	9.18	4.35	10.13	9.54	4.11	9.13	8.91	3.83	6.80
1993	8.55	3.41	5.50	8.33	3.52	5.87	8.89	3.18	6.25	6.61	2.86	5.00
1994	7.90	3.41	4.50	8.82	3.95	4.75	7.46	3.86	5.13	8.82	3.84	5.13
1995	8.70	3.87	6.13	8.60	3.78	6.13	8.37	3.69	6.63	7.77	3.52	6.56
1996	8.48	3.77	6.00	8.30	3.82	5.75	8.04	3.62	5.69	7.56	3.53	5.81
1997	7.64	3.60	5.87	7.20	3.63	6.44	6.56	3.32	6.94	6.39	3.02	7.19

Table VI

UK Equities

Year	31 March Index	31 March Net	31 March Yield % Gross	30 June Index	30 June Net	30 June Yield % Gross	30 September Index	30 September Net	30 September Yield % Gross	31 December Index	31 December Net	31 December Yield % Gross
1986	810.48		3.78	815.70		3.86	768.79		4.21	835.48		4.04
1987	1000.04		3.45	1153.12		3.04	1208.89		3.01	870.22		4.32
1988	896.75		4.38	963.01		4.18	946.27		4.44	926.59		4.71
1989	1076.15		4.22	1101.68		4.31	1169.55		4.19	1204.70		4.24
1990	1114.94		4.82	1171.28		4.72	962.18		5.85	1032.25		5.47
1991	1193.33		4.80	1161.19		5.06	1265.96		4.70	1187.70		5.02
1992	1171.71		5.09	1216.62		4.86	1206.16		4.87	1363.79		4.35
1993	1408.07		4.17*	1432.31		3.88	1506.55		3.75	1682.17		3.37
1994	1561.97		3.72	1463.35		4.04	1510.97		3.98	1521.44		4.02
1995	1538.64		4.16	1623.51		4.04	1733.73		3.85	1803.09		3.80
1996	1843.44		3.81	1856.33		3.86	1945.00		3.78	2013.66		3.74
1997	2099.70		3.64	2184.52		3.56	2455.02	2.60	3.17	2411.00	2.66	3.23

* 3.91 allowing for change in ACT

Table VII

Gross Rates of Investment Return (including income reinvested)

Year	UK Equities %	UK Fixed Interest %	UK Index Linked %	Sterling Cash %	Overseas Equities %	UK Property %	CAPS Median Overall Rate of Return %
1986	27.2	11.5	6.8	11.3	40.2	10.4	23.6
1987	7.8	16.1	6.5	9.9	-9.0	18.3	2.3
1988	11.6	9.4	12.0	9.9	30.6	30.0	11.8
1989	36.1	5.7	14.5	14.2	31.1	19.2	31.5
1990	-9.6	4.4	5.7	15.6	-33.1	-5.5	-10.5
1991	20.7	18.6	5.3	12.3	23.3	-2.6	18.3
1992	20.6	16.8	16.4	10.0	16.4	-3.9	20.6
1993	28.4	34.2	18.7	6.0	24.9	20.2	29.2
1994	-5.8	-12.1	-7.0	4.9	0.6	14.2	-4.8
1995	23.9	17.4	11.7	6.1	19.8	3.6	19.6
1996	16.7	9.0	6.4	5.9	1.1	8.1	10.8
1997	23.6	23.0	13.8	6.4	19.0	17.3	15.5*

*Provisional

Table VIII

Exchange Rates

Value of £1 Sterling

	31 March			30 June			30 September			31 December		
	DM	YEN	US$	DM	YEN	US$	DM	YEN	US$	DM	YEN	US$
1985	3.81	310	1.24	3.97	325	1.31	3.77	305	1.41	3.53	289	1.45
1986	3.45	266	1.48	3.37	251	1.53	2.93	223	1.45	2.85	235	1.48
1987	2.90	234	1.61	2.96	239	1.59	2.97	238	1.72	2.96	228	1.88
1988	3.13	234	1.89	3.11	228	1.71	3.17	227	1.69	3.21	226	1.81
1989	3.20	223	1.69	3.03	223	1.55	3.02	225	1.61	2.73	232	1.61
1990	2.78	259	1.65	2.91	265	1.74	2.94	259	1.87	2.88	261	1.93
1991	2.97	242	1.74	2.93	226	1.63	2.91	232	1.74	2.84	234	1.87
1992	2.86	231	1.73	2.90	240	1.90	2.52	214	1.78	2.44	189	1.51
1993	2.43	173	1.51	2.55	160	1.49	2.45	159	1.50	2.57	165	1.48
1994	2.49	151	1.47	2.46	152	1.54	2.45	156	1.58	2.43	156	1.56
1995	2.23	141	1.63	2.21	135	1.60	2.25	156	1.58	2.22	160	1.55
1996	2.25	163	1.53	2.35	169	1.55	2.38	172	1.56	2.63	196	1.69
1997	2.75	202	1.63	2.90	190	1.66	2.85	195	1.62	2.97	215	1.66

Source: Financial Times

Sources of Investment Statistics

UK Equities	-	FT-Actuaries All-Share Index
UK Equity Dividends	-	Growth in notional dividend from FT-Actuaries All-Share Index
UK Fixed Interest	-	Index and Investment Return: over 15 years Gilts Index
		Yield: 1982 - 1990 — 25 years High Coupon Gilts
		1991 - — 20 years High Coupon Gilts
UK Index Linked	-	Index and Investment Return: Index Linked (all stocks) Index
		Yield: 1982 - 1985 — all stocks, assuming 5% inflation
		1986 - — over 5 years stocks, assuming 5% inflation
Sterling Cash	-	1984 - 1993 Qtr 1 — Local Authority 7-day deposit
		1993 Qtr 2 - — LIBID 7-day notice
Overseas Equities	-	1982 - 86 Morgan Stanley Capital International Index converted to sterling (excluding UK)
		1987 - FT-Actuaries World Index in sterling (excluding UK)
UK Property	-	Jones Lang Wootton Index
CAPS Median	-	The Combined Actuarial Performance Services Limited median returns for all pension funds participating in the CAPS Trustee Service
RPI	-	General Index of Retail Prices