



Financial Reporting Council

Technical Actuarial Standards for Pensions

Consultation Paper

May 2023

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1. Introduction

Background

- 1.1 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for issuing and maintaining technical actuarial standards.
- 1.2 Technical Actuarial Standard 300: Pensions (TAS 300¹) was issued in December 2016, becoming effective for technical actuarial work completed on or after 1 July 2017.
- 1.3 The FRC keeps the Technical Actuarial Standards (TASs) and other actuarial standards under regular review and aims to reconsider each TAS in detail at least once every five years.
- 1.4 The FRC published a Call for Feedback in May 2022² as part of the post implementation review of the sector specific TASs, which includes TAS 300. In February 2023, the FRC published a position paper including the summary of feedback in relation to TAS 300³.

Context

- 1.5 Changes to the Defined Benefit (DB) pension funding regime are anticipated as a result of the Department for Work and Pensions (DWP) consultation on the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2023⁴ and the Pensions Regulator's (TPR) consultation on the DB Funding Code of Practice⁵. Revisions to TAS 300 may be required to reflect changes to the funding regime, but the FRC is of the view that it is appropriate to defer consideration of changes to TAS 300 in light of the changes to the funding regime until both the Regulations and the Code of Practice have been finalised.
- 1.6 As described below, there have been other developments since our previous review of TAS 300 which affect the technical actuarial work carried out for pensions. To maintain the quality of technical actuarial work, it is important that technical actuarial standards continue to be up to date, and appropriate for the work being carried out. We believe it necessary to make other changes to technical actuarial standards relating to these areas now, rather than deferring any changes until the funding regime is finalised.
- 1.7 DB pension schemes routinely use actuarial factors to convert individual members' benefits from one form to another. The pensions freedoms introduced in 2015 are likely to have led to a change in the behaviour of members, and they are more aware of the options available to them about how they access their pension savings. Schemes are also increasingly exploring

¹ <https://www.frc.org.uk/getattachment/d47aecc1-89a7-40af-8bfe-6ac095be6d2a/TAS-300-Pensions-Dec-2016.pdf>

² <https://www.frc.org.uk/getattachment/5e4a71e0-3edb-437f-a56e-48cda3bd6fde/FRC-Post-Implementation-Review-Technical-Actuarial-Standards-May-2022.pdf>

³ <https://www.frc.org.uk/getattachment/c96be997-9b61-47b7-838c-06c20dfd5e5c/Post-Implementation-Review-of-Technical-Actuarial-Standards-February-2023.pdf>

⁴ <https://www.gov.uk/government/consultations/draft-occupational-pension-schemes-funding-and-investment-strategy-and-amendment-regulations-2023>

⁵ <https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-defined-benefit-funding-code-of-practice-and-regulatory-approach-consultation>

member options to accelerate the timetable to end game solutions. This has placed more scrutiny on the factors used for individual calculations. Through the Institute and Faculty of Actuaries' (IFoA) Actuarial Monitoring Scheme's (AMS) thematic review⁶ on participating members' work relating to cash commutation and cash equivalent transfer value (CETV) factors, a number of issues were identified. The FRC has conducted further outreach on actuarial factors, including on the identified issues, and is proposing changes to TAS 300 with the aim to improve the quality of advice in this area.

- 1.8 Since TAS 300 was issued in 2016 the market for DB pension schemes buying out their liabilities with insurance companies has grown rapidly as this has become a more achievable target for many schemes. In addition, the potential for other 'end-game' solutions for DB pension schemes is growing. The DWP consulted⁷ on a new legislative framework for superfunds and TPR introduced guidance for the assessment and supervision of superfunds⁸ until the relevant legislation is in place. In light of these developments, and their potential impact on members of schemes, we are proposing additional provisions in TAS 300 covering technical actuarial work in relation to bulk transfers and superfunds.
- 1.9 In March 2023, the FRC published TAS 100 v2.0⁹ following its periodic review of technical actuarial standards. In this consultation, we propose certain changes to the structure and language of TAS 300 to better align with TAS 100 v2.0. We do not intend these changes to alter regulatory requirements in relation to technical actuarial work where TAS 300 applies.
- 1.10 A legislative framework for Collective Money Purchase (CMP) pension schemes has been introduced through the Pension Schemes Act 2021¹⁰ and the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022¹¹. Trustees of a CMP scheme are now able to apply to TPR for authorisation. Technical actuarial work in relation to a CMP scheme will involve significantly different considerations for practitioners than existing work relating to DB or Defined Contribution (DC) pensions. We are proposing a new Technical Actuarial Standard, TAS 310, to set out requirements for this work.

Purpose and audience

- 1.11 The aim of this paper is to consult on proposed amendments to TAS 300 and the new TAS 310. Our consultation has been written for those carrying out or reviewing technical actuarial work in relation to pensions, and for those who rely on such technical actuarial work.
- 1.12 Section 2 of this paper describes the proposed changes to TAS 300, and section 3 describes the proposed content of TAS 310. Section 4 contains our impact assessment in relation to the proposed changes and section 5 summarises the questions asked in this consultation. Annex 1

⁶ <https://actuaries.org.uk/media/o1dp1zwt/thematic-review-report-pensions-dec2020.pdf>

⁷ <https://www.gov.uk/government/consultations/defined-benefit-pension-scheme-consolidation/consolidation-of-defined-benefit-pension-schemes>

⁸ <https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/db-superfunds>

⁹ <https://www.frc.org.uk/getattachment/67478854-f362-419b-9317-ae27063f824b/TAS-100-General-Actuarial-Standards-Version-2-0-March-2023.pdf>

¹⁰ <https://www.legislation.gov.uk/ukpga/2021/1/body>

¹¹ <https://www.legislation.gov.uk/uksi/2022/255/made>

and Annex 2 contain the Exposure Drafts of the proposed revised TAS 300 and the proposed TAS 310.

- 1.13 We are grateful to all those who provided input to us as part of the Call for Feedback and outreach programme.

Actuarial Regulatory Reform

- 1.14 In the Independent Review of the FRC in 2018, Sir John Kingman raised the question of the FRC's role (or that of its successor, Audit, Reporting and Governance Authority (ARGA)) in overseeing the actuarial profession. The Government considered Sir John Kingman's recommendations and published a consultation in March 2021. It subsequently published its position on reform in May 2022¹².
- 1.15 The FRC welcomes the Government's publication of its position on the reform and has issued a position paper¹³ setting out how the FRC will support the Government's reforms as we transition into ARGA. In the meantime, as the proposed changes in this consultation will still be necessary for the period before FRC's successor is created, and will likely remain relevant after, the FRC will continue to discharge its duty to keep the TASs and other actuarial standards under regular review and proceed with the consultation on revising the technical actuarial standards on pensions.

How to Respond

- 1.16 Comments should be sent electronically to APT@frc.org.uk. Comments may also be sent in hard copy form to:

The Director of Actuarial Policy
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

- 1.17 Comments should reach the FRC by 4 August 2023. It is advisable to send your response electronically.
- 1.18 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. If you are sending a confidential response by email, please include the word 'confidential' in the subject line of your email.

¹² <https://www.gov.uk/government/consultations/restoring-trust-in-audit-and-corporate-governance-proposals-on-reforms>

¹³ https://www.frc.org.uk/getattachment/aafabbc3-81a3-4db3-9199-8aaebb070c7f/FRC-Position-Paper-July_2022_.pdf

1.19 We will publish non-confidential responses on our website. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.

2. Proposed changes to TAS 300

Overall approach to the revision of TAS 300

2.1 The FRC proposes to retain the principles-based approach to TAS 300. The FRC believes that a principles-based approach leaves room for practitioners to apply judgement and proportionality. Feedback received also supported this approach.

2.2 The key proposed changes to TAS 300 relate to:

- Revision to provisions to rectify known gaps in the quality of actuarial work in relation to actuarial factors for individual members calculations.
- Revision to provisions relating to bulk transfers in light of increased buyout activity and the new regime around pension superfunds.

2.3 In addition, the FRC proposes changes to TAS 300 in line with TAS 100 v2.0 as highlighted below:

- Actuaries working in and around pensions will be familiar with the use of the term 'must' in the context of pensions regulation in the UK. We have in TAS 100 v2.0 aligned with this terminology by replacing 'shall' with 'must', which also further distinguishes mandatory requirements ('must') from the regulatory expectations ('should'). The FRC proposes the same to apply to TAS 300. In particular, the FRC proposes to revise some provisions which were previously within TAS 300 from a mandatory nature ("shall") to regulatory expectation (i.e. "should") which means that the FRC expects these provisions to be followed but there may be occasion when – for documented good reason – the practitioner may adopt an alternative approach.
- As set out in the consultation on TAS 100, the FRC proposes appending a Glossary of the defined terms applicable to TAS 300 to the standard itself which would allow practitioners to reference the definitions more easily. This is part of the process of replacing the stand-alone glossary which currently houses all terms relevant to the suite of Technical Actuarial Standards with a relevant Glossary for each TAS.
- We propose changes to the structure of the standard to bring out more clearly those provisions related to communications. The proposal is that these will now appear at the end of the relevant provisions and are marked as related to communications.
- We propose further minor changes to TAS 300 to be consistent with TAS 100 v2.0, including replacing reference to 'user' with 'intended user' and removing existing core provisions of TAS 300 where they are sufficiently addressed in TAS 100 v2.0.

Scope

2.4 The FRC proposes to update the scope of technical actuarial work in relation to bulk transfers to reflect the technical actuarial work which will be performed in relation to transfers to a

superfund. We are also proposing to exclude technical actuarial work in relation to CMP pension schemes from TAS 300 and to put this in scope of the proposed new standard: TAS 310.

- 2.5 The FRC is not proposing to change the detail of provisions in relation to scheme funding and financing at this time. We are, however, proposing to simplify our statement of the scope of work to clarify that the technical actuarial standards apply to all technical actuarial work in relation to funding and financing, whether for pension scheme trustees or for a sponsoring employer.

Question 1

What are your views on the proposed changes to the scope of TAS 300? Are there any other areas of pensions work that you consider to be inadequately covered by TAS 300 and should be included?

Scheme funding and financing

- 2.6 As outlined in paragraph 1.5, we are deferring consideration of revising the requirements in relation to scheme funding and financing in light of the new funding regime until there is certainty on future legislative requirements and a revised Code of Practice is in place. We are proposing to include changes to this section in line with TAS 100 v2.0 for consistency with the rest of the standard.
- 2.7 Feedback received through our outreach sessions highlighted that the Scheme Funding Report produced at the end of a valuation was a 'report of record' rather than a useful decision-making document. As a result, it was considered by some that the requirements of Appendix A of TAS 300 in relation content of the Scheme Funding report are unnecessarily detailed.
- 2.8 It was also commented that there is uncertainty on the appropriate basis to use for projections of future events, particularly as required under paragraph 12(a) and Appendix A paragraph (e) of TAS 300.
- 2.9 We agree both these points merit further consideration, although we do not consider these matters to be so pressing that they require consideration ahead of the fuller review in light of the changes to the legislative requirements and Code of Practice.
- 2.10 We are proposing to introduce one new provision, P2.9, into the section on funding and financing. This is discussed in more detail in paragraph 2.20 below.

Question 2

Do you agree our intention to defer any changes to requirements under scheme funding and financing until there is greater legislative certainty? Do you have any other specific concerns in relation to provisions on scheme funding and financing that you believe require addressing over a shorter period?

Factors for individual calculations

2.11 The FRC proposes to make changes to the paragraphs in TAS 300 relating to actuarial factors to ensure that reviews of factors are carried out with an appropriate frequency and that practitioners setting factors or providing advice on setting factors consider all relevant points. These proposals have been informed by responses to our outreach and call for feedback, and by the thematic review of actuarial factors published by the IFoA in December 2020¹⁴.

Frequency of review

2.12 It is typical practice to review actuarial factors every three years, linked to the funding valuation cycle, but not necessarily as part of the funding valuation. As a result, actuarial factors are slow to react to changes in market conditions. This can result in commutation providing poor value, a matter on which the IFoA published a Risk Alert¹⁵, or being overly generous relative to market conditions at the time a member takes cash commutation.

2.13 Paragraph P2.3 of TAS 100 v2.0 states:

'Where the practitioner exercises judgement that is material to and formed the basis for an implemented decision that will persist for a period of time, the practitioner must highlight the circumstances that require that judgement to be reviewed to ensure that the implemented decision remains appropriate over that period.'

2.14 In the context of a pension scheme's actuarial factors, such circumstances could relate to material changes in market conditions or to the output of a detailed investigation into the scheme's demographic experience, such as is commonly carried out as part of a scheme actuary's triennial valuation work.

2.15 The FRC proposes to add Provision P3.1 to require that practitioners carrying out a factor review must advise on the circumstances in which factors should be reviewed again and how the period until the subsequent review should be decided, with justification being required for a period of more than three years between reviews. This will supersede the current paragraph 17(e) which will be removed. The FRC does not propose a maximum time between reviews, as there may be circumstances where longer than three years is appropriate. For example,

¹⁴ <https://www.actuaries.org.uk/system/files/field/document/Pensions-Thematic-Review...PDF>

¹⁵ https://www.actuaries.org.uk/system/files/field/document/2020_10_Risk%20Alert_CFactors_updated%20published%20Oct%202020.pdf

industry feedback suggested that for small schemes, where certain factors may only be used infrequently, a full review every three years may be disproportionate.

Timing of review

- 2.16 If the impact of a potential future change in actuarial factors is not allowed for in the funding valuation, the trustees' ability to make a change to factors may be constrained. This is especially the case for changes which increase the costs of members' benefits in circumstances where the approval of the sponsoring employer is required. This could potentially lead to commutation factors being lower than suggested by market conditions.
- 2.17 In contrast, industry feedback suggests that there could be circumstances in which it is not appropriate to review actuarial factors as part of the funding valuation, for example because of differences in the balance of powers between setting actuarial factors and making decisions on funding. Feedback also suggests that linking the factor review to the valuation process would have the potential to divert trustees' effort from more significant aspects of the valuation process.
- 2.18 If actuarial factors are not reviewed at the same time as the funding valuation, there is a risk that decision-makers unintentionally constrain future decisions on factors through decisions made on the funding valuation. The FRC considers that it is appropriate for decisions on actuarial factors and decisions on the funding valuation to be taken together, where this is possible under the scheme rules, but recognises the potential practical difficulties of mandating this.
- 2.19 The FRC proposes to add Provision P3.2 to require practitioners to consider when would be the appropriate time to review actuarial factors. In addition, the FRC recognises that the timing of a factor review is unlikely to be in the practitioner's control, but proposes that practitioners seek to arrange for the factor review to be undertaken at a time which would allow decisions on factors and funding to be made together, unless there is justifiable reason not to do so.
- 2.20 The FRC also proposes to add Provision P2.9 within the section of TAS 300 relating to scheme funding and financing to require that, if decisions on factors and funding are not made concurrently, practitioners must make clear in their advice on the funding valuation how actuarial factors and any future changes in actuarial factors have been allowed for, and the potential impact on funding of a future review of actuarial factors.

Question 3

What are your views on the proposed changes to TAS 300 in relation to the frequency of review of the actuarial factors?

What are your views on the proposed changes to TAS 300 in relation to the timing of review of actuarial factors?

Considerations in setting factors

2.21 Other than paragraph 17(e) of TAS 300, which will be superseded as described in 2.15 above, the FRC proposes to retain the existing provisions of paragraph 17, but to add new provisions, as described below, to clarify the requirements placed on practitioners. The FRC expects the full list of requirements in the proposed Provision P3.3 to apply to practitioners advising the decision-making entity. For practitioners advising employers who are not responsible for setting actuarial factors, the FRC expects the requirements to apply only where relevant.

Impact of factors on individual members

2.22 Individual circumstances, such as specific demographic features or specific benefit structures (e.g. pension increases), can affect how closely actuarial factors represent the value of the benefits to a member. The FRC recognises that it is appropriate for the practitioner to form a judgement on the level of tailoring to individual circumstances that is allowed for in any factors, but considers that it is important for the decision-maker to understand the judgement that has been made. The FRC proposes to add Provision P3.3b to require practitioners to consider whether, and if so how, to allow for demographic features or benefits which differ to a material extent between groups of members. The proposed Provision P3.6 would require any allowance also be communicated to the decision-maker.

2.23 It is important that those making decisions on setting actuarial factors understand the impact on different individual members of the scheme. The FRC is proposing to provide greater clarity to the second part of paragraph 17(a) of current TAS 300 by adding the proposed Provision P3.3c, which contains an example of how the impact of a proposed change in factors on individual members' benefits could be considered. The FRC encourages practitioners to have regard to the proportionality guidance for the TASs in applying this requirement.

Commutation factors

2.24 There is no overriding legislation on how commutation factors are set, with the approach depending on scheme rules. In our outreach sessions, different opinions were voiced on whether to view the setting of commutation factors as a part of the scheme benefit design or as an 'actuarial equivalence' of the benefit foregone.

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- 2.25 The FRC does not consider it to be within its remit to prescribe the intent or methodology for how commutation factors should be set where this has not been defined by legislation or scheme rules. It is, however, important that the actuarial information to support the setting of the commutation factors satisfies the reliability objective. The FRC is proposing to revise TAS 300 to specify certain items which are to be included within the actuarial information to ensure that the individual or body setting commutation factors, typically trustees, does so having received actuarial information from the practitioner which includes all relevant points.
- 2.26 The FRC proposes to add Provision P3.4 to require practitioners to consider a comparison of the proposed commutation basis (for commutation on “standard” terms, excluding trivial or ill-health commutation or other special cases as defined in the glossary) with all other relevant bases. Currently, TAS 300 requires a comparison to be made only with the scheme funding basis. In view of the introduction of pensions freedoms, the maturing of schemes’ liabilities and the increased focus on schemes’ long-term financial strategies, the FRC considers comparisons with an estimate of the cost of purchasing an insured annuity, the cash equivalent transfer value (CETV) basis and any long-term funding objectives of the scheme set by the trustees to also be relevant.
- 2.27 The FRC proposes to introduce Provision P3.7 to require practitioners to communicate the comparisons between relevant bases and to explain the rationale for differences between the assumptions used in these bases.

CETV factors

- 2.28 Trustees setting CETV factors are required by legislation to have regard to the scheme’s investment strategy in setting the discount rate, but legislation does not state whether future changes to investments should be allowed for. The IFoA’s Thematic Review on actuarial factors found that the majority of examples of advice submitted for review did not make explicit reference to potential future de-risking in the context of setting CETV discount rates.
- 2.29 Increasingly, schemes have strategies which set out how their investments will change over the long term. The FRC does not consider it appropriate for principles-based TASs to specify whether potential future changes to investment strategy should be allowed for in setting CETV discount rates. The FRC does, however, consider it important that trustees understand the material assumptions made in preparing the actuarial information which they receive. The FRC proposes to add Provision P3.5 to require practitioners advising on CETV bases to consider whether, and if so how, to allow for future changes in investment strategy, including de-risking transactions, and Provision P3.8 to require practitioners to communicate this to trustees.
- 2.30 For the purpose of setting the CETV basis, TPR requires the scheme actuary to advise the trustees of the cost on best estimate assumptions of providing the benefits in the scheme.
- 2.31 The legislation provides for two methods for calculating CETVs 1) a method based on a best estimate of the expected cost of providing the member’s benefits in the scheme; and 2) an alternative method where trustees want to pay CETVs which are above the minimum amount. Although the legislation sets a floor on transfer values (the best estimate basis), it also

provides a basis for paying higher amounts. There are circumstances in which trustees might set CETVs at a higher level than under the 'best estimate' basis – this is a matter for the trustees though it is expected that the trustees will seek advice from their scheme actuary.

2.32 The FRC considers that for the actuarial advice to be complete, practitioners should not assume that the trustees are seeking advice only on the first method. The FRC proposes to add Provision P3.9 to require practitioners to make the trustees aware that an alternative method to using the best estimate assumptions is available.

Communications

2.33 Except for CETV factors, which are required by legislation to be set by trustees, the scheme rules determine who has responsibility for setting actuarial factors. Whether this is the practitioner or another party, the items which the practitioner needs to communicate are the same as the items which the practitioner needs to consider, provided these are material. The FRC proposes to add Provision 3.6 to require practitioners' communications to include the same items as are set out in Provision 3.3 (where relevant in the case of practitioners advising employers who are not responsible for setting factors). In addition, there are specific communications requirements in relation to commutation and CETV factors as described above which are set out in the proposed Provisions P3.7, P3.8 and P3.9.

Question 4

Do you consider the proposed changes to Section 3 would enable decision-makers to reach a fully informed view in setting actuarial factors?

Question 5

Do you consider that the remit of TAS 300 includes specifying how actuarial factors are set, either in relation to the value for money members should get from cash commutation or in making allowance for future changes to investment strategy in CETV factors? Please explain your rationale.

Question 6

Are there other provisions relating to actuarial factors which you believe should be introduced?

Bulk transfers and superfund capital adequacy

2.34 As DB pension schemes have matured, trustees and employers are increasingly considering how they will provide benefit security in the long term. Many employers would like to sever the link to their DB pension liabilities. Bulk annuity transactions with insurers will continue to be part of the solution for the pensions industry as a whole, but will not work for all schemes because of the cost and because of limits to the capacity of insurers to take on new business.

2.35 In 2018, the DWP issued a consultation on the Consolidation of Defined Benefit Pension Schemes seeking views on a new legislative framework for authorising and regulating superfunds.

2.36 A superfund contains:

- a corporate entity which acts as a statutory employer;
- a DB pension scheme subject to the same legislation as applies to traditional DB pension schemes; and
- a capital buffer which replaces the employer covenant and is available to the trustees of the pension scheme if any of certain specified events occur.

2.37 It is appropriate for the existing technical actuarial standards to apply to technical actuarial work performed in relation the pension scheme within a superfund which corresponds to the equivalent work for a traditional DB pension scheme. However, the FRC considers that there is a need for additional technical standards in two areas of technical actuarial work related to superfunds on which guidance has been issued by TPR: transfers to superfunds and capital adequacy of superfunds. Further details are set out below.

2.38 The new considerations which apply to superfunds are not relevant to incentive exercises and scheme modifications, but some of them are relevant to bulk transfers. The FRC proposes separating the current section for incentive exercises, scheme modifications and bulk transfers into two:

- incentive exercises and scheme modifications (Section 4 in the Exposure Draft); and
- for bulk transfers (Section 5 in the Exposure Draft), which refer to transactions which result in cessation of the ceding scheme's liabilities for the transferring members' benefits.

The FRC does not propose significant changes from the current standard (paragraph 18) to the requirements in relation to incentive exercises and scheme modifications. In the section for bulk transfers, the FRC proposes new provisions as described below, some of which will apply to all bulk transfers and some only to transfers from traditional DB pension schemes to superfunds. Further, the FRC proposes a new section (Section 6 in the Exposure Draft) which contains requirements in respect of technical actuarial work carried out for the purpose of assessing the capital adequacy of a superfund.

Bulk transfers

- 2.39 A transfer to a superfund severs the link to the employer's pension liabilities. TPR has issued guidance¹⁶ which includes three gateway tests for a transfer to a superfund, namely that it:
- should be considered only if buyout is not affordable at the time;
 - should be considered only if there is no realistic prospect of buyout in the foreseeable future; and
 - must improve the likelihood of members receiving full benefits.
- 2.40 It is important that any party considering a bulk transfer to a superfund considers the range of opportunities available.
- 2.41 The FRC proposes to introduce Provision P5.1a to require practitioners carrying out technical work on potential bulk transfers to consider credible alternatives to the potential transaction. Such alternatives will differ according to circumstances, but include, where relevant, a bulk transfer to a superfund or an insurer and retaining the liabilities within the existing scheme with potential additional funding and/or security.
- 2.42 In the event of a traditional DB pension scheme or superfund being unable to pay the benefits intended, the PPF provides protection for members' benefits. Protection for insured annuities is provided by the FSCS. In considering a potential bulk transfer, it is necessary to understand the impact of the bulk transfer on the protection for members' benefits in order to make an informed decision.
- 2.43 The FRC proposes to add Provision P5.1b to require practitioners carrying out technical work on potential bulk transfers to consider any material impact on the protection which would be provided for members' benefits if benefits cannot be paid as intended.
- 2.44 To deal with other changes in the risks to members' benefits from bulk transfers, the FRC proposes to add Provision 5.1c, which mirrors the wording of current paragraph 18(b) of TAS 300.
- 2.45 In the case of a transfer to a superfund, the balance of powers between trustees and employer may change. In the case of a transfer to an insurer, there will no longer be trustees to make decisions about benefits. In all cases, the change in the ability of the trustees to make decisions that affect the level of members' benefits will be a relevant consideration in decisions about the bulk transfer.
- 2.46 The FRC proposes to introduce Provision P5.1d to ensure that practitioners consider this in technical actuarial work on potential bulk transfers.

¹⁶ <https://www.thepensionsregulator.gov.uk/en/trustees/wind-up-or-transfer-your-scheme/db-superfunds/superfund-guidance-for-prospective-ceding-trustees-and-employers>

Use of third parties in advising on bulk transfers

- 2.47 Technical actuarial work in relation to bulk transfers will often need to be informed by detailed knowledge of the insurance buyout market. In addition to being required when providing advice on a potential buyout transaction, it will be required for advice on a potential transfer to a superfund, because of the first two gateway tests for such a transfer, i.e. that it should be considered only if buyout is not affordable at the time and there is no realistic prospect of buyout in the foreseeable future. It is important that practitioners have the knowledge, using third party input where necessary, to form a reliable view on the affordability of buyout when this is needed for the advice which they provide.
- 2.48 To form a view on the third gateway test for a bulk transfer to a superfund, that it must improve the likelihood of members receiving full benefits, requires consideration of a range of factors, including how the prospective transfer would change the strength of covenant. Practitioners typically will not have sufficient knowledge and experience to provide advice on which intended users can rely without input from third parties, for example on the assessment of how the strength of covenant would be changed by the transaction.
- 2.49 The FRC proposes to introduce Provision P5.2 relating to use of third-party support. This provision would apply to all bulk transfers – the use of third-party support where necessary is relevant all technical actuarial work relating to bulk transfers.
- 2.50 Practitioners are not required to obtain input from third parties if they consider that they do not need it to provide reliable advice. However, the FRC considers that where practitioners do make use of input from third parties, the reliability of the actuarial information which they provide depends on the quality of that input. The FRC recognises that practitioners will generally not be able to verify the completeness and accuracy of input from third parties. Nevertheless, the FRC expects practitioners, where possible, to take steps to satisfy themselves that input from third parties on which they have relied is reasonable (in Provision P5.2), and to inform the intended user of what they have done (in provision P5.6).
- 2.51 To ensure that assumptions used in the technical actuarial work to advise trustees and employers on potential bulk transfers to superfunds are appropriate, the FRC also proposes to introduce Provision P5.3 to require practitioners to reflect current and expected future market conditions and insurers' practice when carrying out technical actuarial work in relation to the affordability of a scheme buyout at the time of giving the advice and in the foreseeable future.

Modelling for bulk transfers to superfunds

- 2.52 The technical actuarial work performed to advise trustees and employers considering a potential transfer to a superfund involves projections over a period chosen to represent the foreseeable future. TPR's guidance states that this period will be specific to the employer's circumstances but that it is expected to be up to five years. The time horizon used is likely to be shorter than is typically used in modelling to develop long-term financial strategies for DB pension schemes, and longer than the one year typically considered in calculating value at risk. The chosen time horizon will inform choices made in structuring the model. For example:

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- Equities: Practitioners may potentially take a different view of short-term and long-term equity returns based on their view of the current stage in the business cycle. They may also take a different view on the level of short term versus long term volatility.
 - Interest rates: There is a reasonable amount of information available about future forward rates at the short end of the UK interest rate curve, so short-term models typically utilise yield curves to aid predictions of the path of forward rates. The long end of the UK interest rate curve, however, is influenced by factors other than forward rate expectations, such as supply and demand for long-duration gilts and term or inflation risk premiums. Long-term models are less able to reference the gilt curve as a predictor of future forward rates, and alternative considerations or the application of judgement may be required.

2.53 Given the different structures and calibrations required for models for different time horizons, models may not be calibrated to be appropriate for all time horizons. In particular, the models with which practitioners are likely to be most familiar may not provide reliable output for the purpose of assessing the likelihood of buyout being affordable in the foreseeable future.

2.54 The FRC proposes to introduce Provision P5.4 to ensure that models which practitioners use for this purpose are appropriately calibrated.

Capital adequacy of superfunds

2.55 Pending the introduction of legislation governing superfunds, TPR has issued guidance for those setting up and running superfunds to set out the standards it expects to be met. These include expectations relating to capital adequacy.

2.56 TPR's expectations¹⁷ for capital adequacy of a superfund¹⁷ are expressed in terms of quantified probability (a 99% likelihood of being funded at or above the minimum technical provisions in five years), are tested by reference to the output from stochastic models, and focus on the assessment of the likelihood of extreme outcomes.

2.57 Stochastic modelling currently carried out for DB pension schemes is often concerned with the range of potential outcomes, with a focus on the more likely outcomes, rather than with a specific likelihood of an extreme event. The models typically used for pension schemes may not provide reliable output for the purpose of assessing a superfund's capital adequacy. For instance, they may be calibrated to assess the sensitivity of the funding level to interest rate changes close to the median expected interest rate, rather than at more extreme values. The FRC considers that, for superfund capital buffer calculations, it will be important to follow best practice, using third party input where necessary, from the insurance industry, in which modelling of extreme events is used in capital reserving calculations.

2.58 The FRC proposes to add Provision P6.1 to ensure that the models used by practitioners performing calculations relevant to superfund capital adequacy are appropriately calibrated to

¹⁷ <https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/db-superfunds>

the time horizon and severity of the scenario considered. This is consistent with TAS 100 paragraph A5.1 in support of TAS 100 principle 5 to ensure models are fit for purpose.

Communications

- 2.59 Before the advent of superfunds, trustees and employers considering whether to make a bulk transfer from a DB pension scheme would typically have had to compare making the transfer only with maintaining the status quo. With the advent of superfunds, there is a wider variety of ways to sever the link with the employer while making provision for members' pensions. Moreover, the gateway tests which must be met for a bulk transfer to a superfund to take place require consideration to be given to the possibility of buyout both at the time of the potential transaction and in the foreseeable future. These developments have added complexity to decisions on potential bulk transfers.
- 2.60 It is important that trustees and employers considering a potential bulk transfer are fully informed about the range of options available for the long-term provision of members' benefits, and how different classes of members might be affected by the transfer. The FRC proposes to add Provision 5.5 to ensure that the actuarial information which practitioners advising on potential bulk transfers provide is complete and can be relied upon.
- 2.61 Practitioners will have to take particular care when providing advice to enable intended users to form a view on the third gateway test for a bulk transfer to a superfund, that it must improve the likelihood of members receiving full benefits. This is because this requires consideration of a range of factors, including how the prospective transfer would change the strength of covenant, and practitioners typically will not have sufficient knowledge and experience to provide advice which intended users can place reliance on without input from third parties.
- 2.62 The FRC proposes to introduce Provision P5.6 to require practitioners to explain to intended users when and how they have relied on third party input when providing advice. The FRC also proposes to introduce Provision P5.7 covering communication of the risks and factors relevant to the likelihood of members receiving full benefits following a transfer to a superfund.

2.63 Modelling will be used to assess or demonstrate compliance with TPR's gateway tests for bulk transfers to superfunds and expectations for the capital adequacy of superfunds. The FRC considers that it is important that practitioners ensure that intended users are made aware of the uncertainty in the output from such modelling and proposes to introduce Provisions P5.8 and P6.2.

Question 7

What are your views on the proposed provisions in section 5 in relation to bulk transfers? Do you think that the proposed provisions would ensure the actuarial advice given to decision-makers would allow them to be fully informed when considering potential bulk transfers?

Question 8

Do you consider that the proposed changes to TAS 300 on modelling work relevant to superfunds would help mitigate the risks associated with pensions practitioners' lack of familiarity with features of the modelling required?

Question 9

Are there other provisions relating to bulk transfers which you believe should be introduced into TAS 300?

3. TAS 310: Collective Money Purchase (CMP) Pensions

- 3.1 The regulatory framework for CMP pensions sets out detailed requirements for operation of CMP schemes, from the process for setting up a scheme (including authorisation from TPR), the ongoing running of the schemes (including determining annual benefit adjustments) through to the closure of a CMP scheme. The provisions include requirements for various parties including the trustees of the CMP scheme and the scheme actuary.
- 3.2 The regulatory framework introduces new areas of work for practitioners where considerations may differ from those for DB pension schemes, in particular:
- Providing a view on whether a scheme is ‘sound’ – for initial authorisation or annual reapplication as part of regulator supervision¹⁸; and
 - Carrying out annual valuations and determining the resulting level of benefit adjustment required¹⁹.
- 3.3 To improve clarity of the different requirements for technical actuarial work relating to CMP pension schemes compared to DB pensions, the FRC proposes to introduce TAS 310 which applies to technical actuarial work carried out in relation to CMP pension schemes.
- 3.4 We expect the first CMP pension scheme to be in operation later this year. We are aware that work in relation to the assessment of soundness of this scheme has been carried out prior to the development of technical actuarial standards specifically addressing CMP schemes. It is, however, our intention that TAS 310 will be published before the end of 2023, with an effective date within one year of the first CMP scheme being in operation, so the standards are in force at the time of the first annual valuation of a CMP scheme.

Question 10

Do you have any comments on our intention to have an effective date for TAS 310 of within one year of the first CMP scheme being in operation? Is there an alternative timing that would be more appropriate? Please provide any supporting evidence for alternative timings.

Data

- 3.5 Existing provisions 1 and 5 in TAS 300 concern any uncertainty arising from legislation or scheme documentation on how the benefits are calculated. These continue to be relevant for

¹⁸ 13 (1) b of the Pension Schemes Act 2021 and 10(3)(b) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022;

¹⁹ 20 of the Pension Schemes Act 2021

CMP schemes, and the FRC proposes to include these as provisions P1.1 and P1.2 of TAS 310 respectively.

Assumptions

- 3.6 Existing provision 3 in TAS 300 requires practitioners to use assumptions which reflect the membership, benefit structure and financial features of the pension scheme, where appropriate. This is also relevant for CMP schemes, and the FRC proposes to include this as provision P2.1 of TAS 310.
- 3.7 The regulatory framework for CMP schemes requires that assumptions are on a central estimate (CE) basis²⁰. A number of respondents to the call for feedback and outreach sessions requested further guidance around how to determine a CE basis, noting that this would require robust analysis of appropriate past data. The FRC proposes introducing a definition for central estimate to the glossary of TAS 310 and introducing provisions P2.2-2.4 to set out considerations for practitioners when setting assumptions on a CE basis.
- 3.8 The FRC considers that setting a long-term discount rate on a CE basis should involve consideration of past returns and any relevant indicators of future returns. In relation to past returns, this should involve analysis of returns for a number of asset types over a suitably long period. We have included provision P2.2 to require the practitioner to consider how long a period should be used for past data, and to make appropriate allowance for how market conditions may have changed since the time period this data relates to.
- 3.9 It is well understood that market-based indicators used to derive certain actuarial assumptions, such as bond yields and market implied inflation, vary depending on the time horizon considered and market sentiment, referred to as the term structure. The nature of CMP schemes is that assumptions made, particularly in valuations, can directly impact members' benefit level (through the derived benefit adjustment rate). Provision P4.2 of TAS 100 requires assumptions to be set using 'as much relevant information as possible'. Given the direct impact assumptions can have on benefits, our expectation is that relevant information would include the term structure of these indicators. The FRC proposes to include P2.3 to require practitioners to consider the term structure of the assumptions they set when carrying out work in relation to CMP schemes, or to justify their decision if they do not allow for the term structure.
- 3.10 Practitioners setting assumptions on a CE basis may have to consider seeking additional expertise to ensure the resulting assumptions are appropriate. For example, the knowledge and experience required to set a discount rate on a CE basis may differ from that currently required in DB pension schemes where there is a greater focus on a prudent assumption connected to the liabilities of the scheme. The FRC proposes to introduce provisions P2.4 and P2.5 to ensure practitioners acquire the appropriate support where necessary when setting assumptions on a CE basis.

²⁰ Definition in 2 of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

3.11 The requirements of provision P2.4 allow practitioners to apply judgement to decide whether to acquire third party support when setting CE assumptions. In any case, practitioners will ultimately be responsible for the assumptions and will be expected to justify why they consider the information or knowledge used to set CE assumptions is sufficient in all cases, regardless of whether third party support was used. We expect this to primarily relate to assumptions of future investment returns.

Question 11

Do the proposed provisions provide sufficient clarity of requirements for practitioners to set central estimate assumptions? Please set out any areas of setting CE assumptions you believe require further provisions, including reasons for these.

Modelling

- 3.12 For the intended user to place reliance upon actuarial information provided, it is necessary for the modelling carried out by practitioners to be of sufficient rigour. The level of uncertainty in the modelling should be fully understood by the practitioner and clearly communicated to the intended user. The FRC proposes to introduce provision P3.1 to require practitioners to ensure the models used reflect the complexity and the level of uncertainty of the scheme.
- 3.13 A number of those who participated in the outreach suggested it would be appropriate for technical actuarial standards to give clarity on the level and type of modelling required when assessing soundness of a scheme design.
- 3.14 For a CMP scheme, it is critical that the level of uncertainty/risk of outcomes is understood by trustees and appropriately communicated to members. This is important for a CMP scheme because members and trustees will need to fully understand the possibility and severity of downside risks to the level of their benefits as well as the possible upside. Also, with CMP schemes being a new area for trustees the sources or level of risk may be unfamiliar to them. The FRC believes that stochastic modelling would be required to achieve the level of understanding required. This is consistent with TPR's code of practice (which sets out the information they expect to use when assessing potential CMP schemes for authorisation²¹). TPR sets out their expectation for the analysis to include stochastic modelling²².
- 3.15 The FRC proposes to include provisions P3.2 and P3.3 to set out in more detail what practitioners should do to ensure their modelling appropriately reflects the complexity and uncertainty.
- 3.16 The degree to which a CMP scheme meets the reasonable expectations and needs of members will depend on an appropriate understanding of the likelihood of benefit

²¹ <https://www.thepensionsregulator.gov.uk/en/document-library/new-code-of-practice/collective-defined-contribution>

²² <https://www.thepensionsregulator.gov.uk/en/document-library/new-code-of-practice/collective-defined-contribution/authorisation-criteria/sound-scheme-design/viability-report>

adjustments being positive in nominal terms (i.e. the likelihood of benefits not being reduced) and in real terms (i.e. how increases compare to price inflation). The FRC considers that in order for the practitioner to reach a view on soundness, or to advise on soundness, it is important that any modelling considers increases both in nominal and real terms. The FRC proposes such considerations within Provision P3.2.

- 3.17 In addition, the FRC considers that it is important that trustees understand the circumstances under which a CMP scheme may not be able to continue in its current form, typically where TPR withdraws the scheme's authorisation and a Triggering Event²³ occurs. When a triggering event occurs and the trustees are unable to resolve the cause, the scheme must either be wound up or converted to a closed scheme (accepting no future contributions or new members or both)²⁴. The failure of either of the two live running tests²⁵ could lead to TPR withdrawing authorisation of a scheme, so it is important that trustees understand the likelihood of this occurring at some future point. The FRC is proposing that practitioners' models should be able to identify scenarios where running tests might fail at some future point in Provision P3.2.
- 3.18 As set out in paragraph 3.14, to quantify the likelihood of certain downside events happening, the FRC considers it necessary to model a CMP scheme stochastically. This expectation is set out in provision P3.3. However, the FRC recognises that there might be circumstances in which practitioners consider that stochastic modelling is not required to form a view on the soundness of the scheme. Where this is the case, the FRC expects practitioners to demonstrate that their alternative approach satisfies P3.1 and P3.2 and the reliability objective²⁶, particularly relating to communication of uncertainty.
- 3.19 Model outputs will be dependent on the methodology and assumptions chosen by the practitioner, including, but not limited to:
- which assumptions are modelled stochastically and the probability distribution of these stochastic variables; and
 - the assumptions for means (including any mean reversion) and volatility for stochastic variables, and the relationship (e.g. correlations) between the variables.
- 3.20 The FRC expects the practitioner to have a clear understanding of the decisions in relation to modelling methodology and modelling assumptions to which the output is most sensitive, and proposes provision P3.4 to require practitioners to consider the impact on their model output.
- 3.21 The FRC expects practitioners to provide sufficient information for intended users to understand the output and uncertainty of any modelling carried out, and sets out its expectations in respect to these communications in provisions P3.5 to P3.10. These are set out

²³ 31 of the Pension Schemes Act 2021

²⁴ 34 (1) and 34(2) of the Pension Schemes Act 2021

²⁵ 11 (7) to (10) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

²⁶ To allow the intended users to place a high degree of reliance on actuarial information, practitioners must ensure the actuarial information, including the communication of any inherent uncertainty, is relevant, based on transparent assumptions, complete and comprehensible.

as expectations, acknowledging that there may be different ways of achieving the objective of allowing intended users to understand the output and uncertainty of any modelling.

- 3.22 As discussed in paragraph 3.19, the model outputs, including the probability of adverse events, will be sensitive to decisions relating to the modelling methodology and modelling assumptions and this sensitivity may not be apparent to the intended user. The FRC considers it important for intended users to understand this and are proposing to include provisions P3.6 and P3.7 so that the impact of judgements and decisions made by the practitioner in modelling are communicated. In particular, the proposed P3.6 requires practitioners to set out which variables have been modelled stochastically and to set out material statistical measures (such as means and mean reversion if allowed for, standard deviations and correlations) to aid understanding.
- 3.23 The FRC expects the modelling of a CMP scheme to include assumptions around future events, such as decisions relating to future valuations or investment allocation, or changes in membership profile. The judgements made in these areas could be material to the output, in particular the frequency and severity of the benefit adjustments. The FRC proposes to include provisions P3.8 and P3.9 to ensure practitioners communicate clearly how these items have been allowed for in their models.
- 3.24 The FRC proposes to include Provision P3.10 which relates to communicating to the intended user the scenarios in which the risks covered in provision P3.2 are realised.

Question 12

What are your views on the proposed provisions in relation to CMP modelling? Do you expect the proposed requirements on communication to support intended users in making relevant decisions based on modelling? Do you believe there are further items where additional requirements would be appropriate?

Scheme design

- 3.25 Given the process for design and then authorisation of a new CMP scheme under the relevant legislation, it is likely that the scheme design work will initially be carried out by a practitioner advising the potential scheme sponsor. This design will then be passed to the scheme actuary of the proposed scheme, who may or may not be the same individual, to carry out their responsibilities relating to the authorisation process.
- 3.26 Feedback from stakeholder outreach expressed concern that any difference in technical actuarial standards applied to corporate and scheme actuaries could create additional risk. For example, this might result in a corporate actuary proposing a scheme design based on assumptions and modelling which the scheme actuary would not be able to support, based

on their application of technical actuarial standards, and thus be unable to certify the design as sound.

- 3.27 The FRC expects the CMP scheme design work (carried out for an employer) to follow all of the relevant provisions of TAS 310.
- 3.28 The FRC recognises, however, that practitioners may be advising on scheme design based on incomplete data or information. The use of incomplete data can have a material impact on results. The FRC proposes to include provision P4.1 to require that practitioners seek out comprehensive data for scheme design work, and provision 4.2 to communicate the impact of any limitations of this data. Although the main expected area of limited information is scheme membership data, this provision would apply to all other relevant areas including details of potential rules relating to benefit calculations or data which feeds into assumption setting.

Question 13

What are your views on the proposed provisions in relation to Scheme design? Do you envisage any difficulties in meeting the requirements of these provisions. Please provide details to accompany your response.

Viability certificate and information provided to trustees to support their viability report

- 3.29 Practitioners will be required to form a view on the soundness of the scheme for the initial authorisation and annual assessments thereafter. This is achieved by the practitioner providing a viability certificate annually and providing advice to inform the trustees' decisions on soundness, as well as providing confirmation that that actuarial matters are accurately reflected in the trustee's viability report.
- 3.30 Practitioners are required by the CMP regulations²⁷ to prepare a document to assist the trustees in their own consideration as to whether the design of the scheme is sound for their viability report. The FRC believes that the considerations for this purpose and information relied on are the same as those for practitioners' work in providing a viability certificate. The FRC proposes to define the term 'viability assessment' in the glossary of TAS 310 to cover both the practitioner's assessment of soundness, and the document provided by the practitioner to trustees to support their assessment of soundness.
- 3.31 A number of points were raised during stakeholder outreach and call for feedback responses relating to viability certificates and certifying soundness. In particular:

²⁷ 10(3)(b) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022;

- respondents commented that that the concept of ‘soundness’ which practitioners would be certifying was not fully defined in the regulations;
- there was a view that it may be appropriate for practitioners to review a wider range of member communications than those set out in regulations²⁸; and
- some respondents stressed the importance of communicating the likelihood of benefit adjustments leading to negative real or nominal pension increases and the scenarios when they might occur.

- 3.32 Respondents asked for the technical actuarial standards to be expanded to provide clarity on the above matters.
- 3.33 The FRC does not consider it within its remit to define ‘soundness’ in the absence of a definition in either legislation or TPR’s code of practice. The FRC does, however, consider that while soundness is not specifically defined it is important that practitioners providing an opinion of soundness should consider all factors that may be relevant to this opinion. The FRC proposes introducing provision P5.1 that practitioners, in providing an opinion of soundness, must not be restricted to the criteria set out in CMP regulations²⁹ when considering whether a scheme is sound and set out a number of other factors which must be considered.
- 3.34 CMP regulations define specific items of documentation that the scheme actuary is required to review in taking a view on the soundness of a CMP scheme³⁰. In providing their view on soundness, the FRC considers it necessary for the scheme actuary to consider whether any further documentation beyond this list is reviewed, or if circumstances have changed (such as a greater likelihood of negative benefit adjustments) such that existing communications are no longer consistent with the scheme actuary’s view of the risk in the scheme. We are proposing to include provision P5.2 to address this.
- 3.35 The code of practice set by TPR states that they do not expect new asset liability modelling (“ALM”) to be carried out each year and that ‘new ALM should be undertaken when the trustees consider it necessary’³¹. As such, there may be circumstances when practitioners are carrying out viability assessments based on modelling carried out in previous years. The FRC considers that in order to form an opinion as to whether a scheme is sound, practitioners must consider whether the modelling on which they base their assessment should be updated for changes in their view on suitable financial or demographic assumptions. We have set out requirements for this and related communications in proposed provisions P5.3 and P5.4a respectively.
- 3.36 In communicating the results of their assessment of soundness to trustees, the FRC considers it important that trustees understand both how the practitioner has reached their conclusions on soundness and what future events could lead to the practitioner no longer considering the

²⁸ 11 (2)(b) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

²⁹ 11 (2) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

³⁰ 11 (2)(b) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 Documents mentioned are the member booklet, the statement of scheme design and the wording used in the most recent statement of benefits

³¹ <https://www.thepensionsregulator.gov.uk/en/document-library/new-code-of-practice/collective-defined-contribution/authorisation-criteria/sound-scheme-design/viability-report>

scheme to be sound. The FRC proposes introducing provision P5.4 setting out expectations for practitioners' communications in relation to scheme viability assessments.

Question 14

What are your views on the proposed provisions on completing assessments of scheme viability and certifying soundness? Do you consider it is appropriate to require practitioners to consider areas beyond those outlined in legislation when certifying soundness? Please give reasons for your response.

Question 15

Do you agree that the considerations for a practitioner certifying scheme soundness via a viability certificate are the same as those a practitioner should communicate to trustees in their own consideration as to whether the design of the scheme is sound for their viability report?

Question 16

Are there any other areas in relation to soundness (including practitioners' communications of their work on soundness) which require further standards? Please provide as much detail as possible.

Actuarial valuations

- 3.37 Under the legislation for CMP schemes, the annual actuarial valuation used to set the level of benefit adjustments would be clearly defined within the scheme rules. As a result, the main area of technical actuarial work is in setting central estimate assumptions for the valuation. The determination of central estimate assumptions requires judgement, and the results of any actuarial valuation, and consequently the benefit adjustment, could differ if an alternative central estimate were used.
- 3.38 The FRC considers it necessary for a practitioner to consider and communicate to the intended user how the outcome of an actuarial valuation could differ were a different set of assumptions used. The FRC proposes introducing provisions P6.1 and P6.2 to set out specific considerations actuaries must have when carrying out CMP valuations.
- 3.39 The benefit adjustments which result from actuarial valuations are expected to be measured against the original aspirations of the benefit design communicated to members. In particular, the aim of the scheme, assessed by the first gateway test, to provide increases to benefits at least in line with expectations of CPI inflation. It would be reasonable to assume that trustees and members expect any form of monitoring of scheme performance against the original aspirations to be carried out using consistent actuarial assumptions. As a result, we would expect practitioners to maintain consistency between this gateway test and the subsequent

actuarial valuations or, if they do not maintain consistency to explain the reason for this. The FRC is proposing in provision P6.1a that practitioners consider the consistency of their valuation assumptions with those adopted when assessing the scheme against the first gateway test in the authorisation process.

- 3.40 The CMP regulations include a mechanism for post valuation experience to be allowed for when carrying out an actuarial valuation³². The FRC considers that in circumstances where there has been material post valuation experience which has not been allowed for in the actuarial valuation, it is important that the practitioner considers what the outcome of the valuation would have been if the experience had been allowed for and communicates this. We are proposing to include this in provisions P6.1c and P6.2b.
- 3.41 The proposed provision P6.2 sets out our regulatory expectations around communicating what the impact on the benefit adjustment would be had alternative assumptions been adopted or post valuation date experience been allowed for and are consistent with the considerations for practitioners set out in P6.1.
- 3.42 The FRC considers that the information covered in P6.2 could be communicated directly to the trustees in setting valuation assumptions rather than the final CMP actuarial valuation report discussed below.
- 3.43 Consistent with the approach followed in TAS 300 for DB pensions, the FRC proposes including Appendix A (referenced via proposed provision P6.3) which sets out the items to be included in a CMP scheme's actuarial valuation report. The CMP regulations include a list of items to be included in an actuarial valuation of a CMP scheme³³ which is referenced in paragraph (a) of the appendix.
- 3.44 The items to be included in the actuarial valuation report listed in the regulations include a requirement for the valuation to disclose details of any benefit adjustment required following the previous actuarial valuation. The FRC considers it important for the intended user to understand this information in context of ongoing trends in the scheme. We are proposing that practitioners' valuation reports include details of the last five benefit adjustments (or smaller number if less than five valuation exercises have been carried out since scheme commencement). We consider a five year period to be sufficient to provide users of the reports with an indication of emerging trends in benefit adjustment. Practitioners may also choose to disclose a longer period. This is included in paragraph (d) of the appendix.
- 3.45 The FRC is also proposing items e, f and g in the Appendix to require that practitioners include information on the scheme experience since the previous exercise and an explanation of how this results in the recommended benefit adjustment, in their actuarial valuation reports. This is consistent with the requirements of TAS 100 paragraph A7.1c³⁴.

³² 19(2) and 19(3) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

³³ 19(4) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

³⁴ That practitioners' communications should include a comparison of results of calculations with the previous results and explain any material differences.

3.46 In addition, the FRC proposes the items currently required under TAS 300 (v1.0) Appendix A which are relevant to CMP schemes (i.e. items b, c, h, and i) be included with amendment where relevant. Items from appendix A of TAS 300 that are not considered relevant to CMP schemes or are already required by CMP regulations have not been included in the appendix of TAS 310.

Question 17

What are your views on the proposed provisions on actuarial valuations for CMP schemes? Are there other key areas of judgement beyond the central estimate assumptions? Are there further areas you would expect to be included? Please give reasons for your response.

Question 18

Do you agree the required content of the valuation report set out in Appendix A is reasonable for CMP schemes? Is there further content which should be included?

Factors for individual calculations

3.47 As per DB schemes, technical actuarial work is required to set factors for individual calculations or exercise of member options in CMP schemes and practitioners may be involved in either directly setting the factors or advising on the factors.

3.48 While the reasons may differ due to the different legislative frameworks, the FRC considers that the application of paragraph P2.3 of TAS 100³⁵ to factors for individual calculations should apply in a similar manner for CMP schemes as it does for DB schemes as explained in paragraphs 2.12 to 2.14 above. The FRC proposes to include Provision P7.1 to require that practitioners carrying out a factor review must advise on the circumstances in which factors should be reviewed again and how the period until the subsequent review should be decided. We have not, however, specified a minimum period between reviews since the separate exercises for actuarial valuations and viability certificates are legislated to occur annually and should drive regular reviews of factors.

3.49 The FRC considers a starting point for factors should be a cost neutral basis and that practitioners should explain any deviation from cost neutrality. This is because any transactions as a result of factors which are not calculated on a cost neutral basis are likely to lead to individuals receiving a benefit which differs from their share of the fund and may create advantages and disadvantages to groups of members. The FRC proposes to include provisions P7.2 and P7.5 to require cost neutral factors when practitioners are setting the factors or providing advice on setting factors respectively.

³⁵ Where the practitioner exercises judgement that is material to and formed the basis for an implemented decision that will persist for a period of time, the practitioner must highlight the circumstances that require that judgement to be reviewed to ensure that the implemented decision remains appropriate over that period (See 2.12 above)

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- 3.50 As the overall size of the CMP fund varies with investment performance, the member's share of that fund will vary. The FRC expects practitioners to consider appropriate processes such that any share of fund calculation remains reasonable over time and have proposed this in provision P7.3.
- 3.51 There may be a selection risk between the members choosing to exercise an option and those members not exercising an option. For example, members in worse health may be more likely to transfer from a CMP scheme close to retirement, rather than pooling their mortality with other, potentially healthier, members in retirement. Whilst it is not appropriate for FRC to define if and how allowance be made for this, we propose in Provisions P7.4 and P7.6 to require the practitioner to consider and communicate the implication of such selection risk.

Question 19

What are your views on the proposed provisions in relation to factors for CMP schemes?

Do you envisage any issues complying with provision P7.4 regarding selection risk? Are there certain groups of members you believe this may disadvantage? Please provide reasons for your response.

4. Impact Assessment

Benefits

- 4.1 The majority of the proposed changes to TAS 300 and the introduction of TAS 310 are a result of new ways of providing or securing pensions that have emerged since 2016 when TAS 300 was previously reviewed, such as the introduction of the CMP schemes and the development of potential superfund transactions. In addition, the proposed revisions to the provisions in relation to the factors for individual calculations are to ensure the standard is reflective of current good practice in actuarial work and to address any known gaps in the quality of actuarial work.
- 4.2 The benefits of the proposed changes to TAS 300 are from the improvement in quality of technical actuarial work. This reduces the risk of pension schemes trustees or the governing body receiving poor quality actuarial advice, and ultimately the risks to members of pension schemes receiving poor outcomes:
- a. The proposed changes in relation to setting actuarial factors for individual calculations ensure that those setting factors are aware of the impact of any intended changes on members and they have been aware of all relevant factors prior to making any decisions.
 - b. The proposed changes in relation to bulk transfers and superfunds ensure that actuarial advice makes a clear comparison of all relevant options in how pension benefits are secured, that the assumptions and modelling are appropriate, and that an appropriate understanding is reached of the level of risk to members under any potential option for securing the benefits.
- 4.3 The introduction of TAS 310 provides technical actuarial standards relating to new activities required in supporting the provision of CMP benefits following their introduction. The content of TAS 310 aims to ensure that members of CMP schemes are treated fairly and receive appropriate information on their benefits:
- a. Scheme actuaries and trustees appropriately review the soundness of CMP pension schemes, to reduce the risk of inappropriate schemes being established, and ensure risks are communicated to scheme members appropriately;
 - b. Valuations of CMP schemes are carried out in appropriate and fair manner, and the assumptions used are appropriate; and
 - c. Members exercising options such as transferring from a scheme receive an appropriate share of the assets of the scheme.

Costs

- 4.4 Whilst the proposed structure of TAS 300 differs from the current version, it is not proposed to revise the provisions which already exist in the current version of TAS 300 in a material

way. It is recognised that there will be an element of one-off cost associated with practitioners reading the revised TAS 300 and firms updating processes and procedures, where these exist.

- 4.5 The majority of proposed changes to TAS 300 in relation to actuarial factors are in line with existing best practice, as identified in the IFoA's thematic review of factors. In particular, the FRC has expanded on the requirement for practitioners to illustrate the impact of potential changes in factors on individual members (Provision P3.3(c) of TAS 300 v2.0). As mentioned in paragraph 2.23 we expect practitioners to follow the principle of proportionality in applying this requirement. The FRC does not expect the proposed changes to result in significant additional work within a factor review.
- 4.6 The proposed changes to TAS 300 in relation to bulk transfers and superfunds will only result in additional work when such transactions are being considered. In the case of bulk transfers to insurers, the FRC anticipate limited additional work being incurred in relation to most transactions, as the proposed changes reflect current good practice.
- 4.7 The proposed changes to TAS 300 in respect of superfund transactions have arisen as a result of the introduction of TPR's guidance for transfers to superfunds and the assessment and supervision of superfunds (until the relevant legislation is in place). Any costs which arise from the amendments to TAS 300 in respect of additional work carried out are due to the existence of a potential new type of transaction.
- 4.8 The proposed introduction of TAS 310 in respect of CMP schemes have arisen following the responsibility imposed by the new legislation and TPR regime. Any costs on the actuarial profession which arise from the introduction of TAS 310 are due to the regulatory requirements for this new type of scheme. The DWP set out their cost benefit analysis in their consultation on CMP regulations.
- 4.9 To date, there have been no transfers to superfunds and only one application for approval for a CMP scheme. With both the superfunds and CMP markets in their infancy, it is not possible to estimate with any degree of accuracy, the frequency that the additional work may be required.

Question 20

Do you agree with our impact assessment? Please give reasons for your response.

5. Summary of consultation questions

1. What are your views on the proposed changes to the scope of TAS 300? Are there any other areas of pensions work that you consider to be inadequately covered by TAS 300 and should be included?
2. Do you agree our intention to defer any changes to requirements under scheme funding and financing until there is greater legislative certainty? Do you have any other specific concerns in relation to provisions on scheme funding and financing that you believe require addressing over a shorter period?
3. What are your views on the proposed changes to TAS 300 in relation to the frequency of review of the actuarial factors? What are your views on the proposed changes to TAS 300 in relation to the timing of review of actuarial factors?
4. Do you consider the proposed changes to Section 3 would enable decision-makers to reach a fully informed view in setting actuarial factors?
5. Do you consider that the remit of TAS 300 includes specifying how actuarial factors are set, either in relation to the value for money members should get from cash commutation or in making allowance for future changes to investment strategy in CETV factors? Please explain your rationale.
6. Are there other provisions relating to actuarial factors which you believe should be introduced?
7. What are your views on the proposed provisions in section 5 in relation to bulk transfers? Do you think that the proposed provisions would ensure the actuarial advice given to decision-makers would allow them to be fully informed when considering potential bulk transfers?
8. Do you consider that the proposed changes to TAS 300 on modelling work relevant to superfunds would help mitigate the risks associated with pensions practitioners' lack of familiarity with features of the modelling required?
9. Are there other provisions relating to bulk transfers which you believe should be introduced into TAS 300?
10. Do you have any comments on our intention to have an effective date for TAS 310 of within one year of the first CMP scheme being in operation? Is there an alternative timing that would be more appropriate? Please provide any supporting evidence for alternative timings.
11. Do the proposed provisions provide sufficient clarity of requirements for practitioners to set central estimate assumptions? Please set out any areas of setting CE assumptions you believe require further provisions, including reasons for these.

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12. What are your views on the proposed provisions in relation to CMP modelling? Do you expect the proposed requirements on communication to support intended users in making relevant decisions based on modelling? Do you believe there are further items where additional requirements would be appropriate?
13. What are your views on the proposed provisions in relation to Scheme design? Do you envisage any difficulties in meeting the requirements of these provisions. Please provide details to accompany your response.
14. What are your views on the proposed provisions on completing assessments of scheme viability and certifying soundness? Do you consider it is appropriate to require practitioners to consider areas beyond those outlined in legislation when certifying soundness? Please give reasons for your response.
15. Do you agree that the considerations for a practitioner certifying scheme soundness via a viability certificate are the same as those a practitioner should communicate to trustees in their own consideration as to whether the design of the scheme is sound for their viability report?
16. Are there any other areas in relation to soundness (including practitioners' communications of their work on soundness) which require further standards? Please provide as much detail as possible.
17. What are your views on the proposed provisions on actuarial valuations for CMP schemes? Are there other key areas of judgement beyond the central estimate assumptions? Are there further areas you would expect to be included? Please give reasons for your response.
18. Do you agree the required content of the valuation report set out in Appendix A is reasonable for CMP schemes? Is there further content which should be included?
19. What are your views on the proposed provisions in relation to factors for CMP schemes? Do you envisage any issues complying with provision P7.4 regarding selection risk? Are there certain groups of members you believe this may disadvantage? Please provide reasons for your response.
20. Do you agree with our impact assessment? Please give reasons for your response.



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