Broadstone

Consultation on proposed amends to Technical Actuarial Standards for Pensions

Broadstone Response

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Executive Summary

We are grateful for the opportunity to input into the consultation on revising TAS 300 and, whilst we have not provided any feedback on the subject, we are supportive of the proposed introduction of TAS 310.

Our actuarial committee's detailed response highlights a handful of areas where we believe relatively simple amendments to the proposed wording could make a meaningful improvement to the clarity and effectiveness of the revised TAS.

If you have any questions regarding our response or would like to discuss any of these issues further, please contact us.

Chief Actuary

3 August 2023

Question by question response

Proposed changes to TAS 300

1. What are you 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?

There are no other areas which we believe should be included as we understand that a topic would only be added where there are specific additional considerations to be incorporated or emphasised within advice that are not felt to be adequately covered by the requirements of TAS 100.

With that in mind, we question whether the 'simplified' scope as drafted (all 'Technical actuarial work concerning pension scheme funding and financing') is appropriate since this would appear to go much further than the given example of advice provided to employers through the actuarial funding process.

In particular, this could cover a huge variety of projects not previously within the remit of TAS300 such as investment strategy work, monitoring of funding levels and company accounting work, as well as high level strategic journey planning, none of which appear to have bespoke relevant clauses added.

Reverting to wording closer to the original would be more appropriate, focusing on work where decisions are being made around changes to the scheme's financing or funding strategy, or where you believe the specific additional clauses under section 2 should be applied (and/or perhaps those clauses that you intend to introduce under this section at the next review once the new funding regulations are finalised).

Finally, we would appreciate greater clarity of the status of 'buy-in' transactions within TAS 300. At present they appear to be excluded on the grounds that a bulk transfer is defined as resulting in the cessation of the ceding scheme's liabilities. However, some of the wording such as that in 5.1 would appear to be relevant to a buy-in transaction rather than the rather limited decision at a later stage to convert this from a buy-in to a buy-out. We discuss this further in our response to question 7.

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?

As we commented last year in discussion with you, we agree with your intention to defer any changes until there is more clarity on the revised DB funding regime.

This course of action appears even more appropriate now given improved funding levels for many schemes (through a combination of investment out-performance from return-seeking assets and a significant rise in gilt yields) since the draft legislation and funding code were published, and also the potential implications of the recent DWP call for evidence on options for defined benefit schemes.

We note that there is a potential temporary disconnect between the widened scope of this section and the clauses currently within Section 2 but assume that this will be addressed in due course. If there are to be a number of clauses within this section specifically and solely aimed at Trustee work (and triennial valuation work in particular) then it would be helpful if these are separated out. Also, items such as P2.4 seem out of line with a broader scope and should be clarified to only apply where relevant.

In relation to your new principal P2.9, we believe the initial wording is unnecessary and the clause should start from the word 'Practitioners'. Regardless of the timing of any factors review, the funding advice should be clear as to the approach taken in relation to factors and the implications of potential future reviews.

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?

We largely agree with the proposed changes regarding frequency of review. It is helpful that the period of time can be greater than 3 years in certain circumstances, for example for very small schemes.

However, we suggest that the wording of P3.2 is amended to say that practitioners should 'consider arranging for the review to be undertaken when a Scheme funding assessment is being undertaken' rather than 'seeking' to do so. In some circumstances factors will have already been reviewed relatively recently, and in others, an actuary might feel it is appropriate to review 3-6 months before the valuation date but could be put off doing so if obliged to seek to arrange it alongside the valuation.

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

We are generally supportive of the changes and it is helpful that 2.23 of the consultation states that having regard to the proportionality guidance is encouraged in P3.3c.

We query the wording 'which are relevant' in P3.3 - do you mean "where relevant"? If not, then it would be clearer simply to remove these words and say that practitioners 'must consider the items listed below:'

Similarly, for P3.4, we would suggest that the wording should say that 'relevant bases **might** include ...'. Essentially, our view is that the practitioner should be determining/considering what bases are relevant and providing suitable comparisons whereas at the moment the wording suggests that all of the listed bases are relevant and the practitioner can consider ignoring them anyway.

To our mind, it is highly questionable to what extent the cost of an individual annuity is relevant to the decisions for trustees managing an ongoing scheme in setting their commutation factors. This is particularly true where the scheme has no intention of securing benefits in this manner in the foreseeable future (before even considering the challenges and potential variation that such a comparison could potentially entail).

This point then follows through to P3.7, as we believe the actuary should judge the appropriate comparisons to include. Some bases may be more or less relevant in certain circumstances and including all the bases currently listed in P3.4 could result in less clarity in communications, trustee confusion and additional costs. Mirroring the wording from P3.6 and saying that the communications 'must include the comparisons set out in P3.4 where these are relevant and material' would be a potential solution.

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.

We strongly agree with the FRC that it is not within the remit of TAS300 to specify how actuarial factors are set in either of the situations described. We agree it should only specify principles to be considered (as currently drafted).

The recent IFoA Working Party paper set out a number of issues to consider in relation to cash commutation factors but highlighted that with almost every element there was no clear solution that would apply in all cases. Clearly there are many different factors which could influence the advice depending on the circumstances.

We agree that future changes to investment strategy should be considered in advising on CETV assumptions but there are many possible ways of doing so depending on the complexity, size and circumstances of the scheme. We would therefore not wish this to be specified.

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

No

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?

Focus on Superfunds

Half of the bulk transfer principles relate specifically to Superfunds (5.3, 5.4, 5.7 and 5.8). It might be more helpful to have a subsection within section 5 dedicated to these so that other cases can focus on the relevant items.

While not unwelcomed, and understandably a source of focus given the higher risks associated with a new area, that market is very much in its infancy. There is potentially significant expansion in the buy-out market and the volume of related advice, which arguably merits more attention for most schemes.

For most of our clients there is currently (and likely to be for the foreseeable future) a binary choice – buy-out or running schemes on. Further, many have been working for years to reach an agreed objective of being in a position where members' benefits can be secured with an insurer. Therefore, proportionate consideration and communication of alternative possibilities is likely to be relatively brief.

A variety of practitioners

We suggest that the wording could do more to recognise that there may be several 'practitioners' carrying out technical actuarial work in relation to bulk transfers (e.g. (scheme) actuarial, investment and insurance specialists, potentially for both the trustees and employer(s)).

Third party advice

In relation to P5.2, we believe it will often be difficult for practitioners to determine or comment on the reasonableness of third party input because it will be in areas outside of their specialism (e.g. covenant or legal advice). Indeed, this will often be the very reason that they will have judged input from third parties to be required to provide reliable advice.

This could be addressed with additional wording such as 'Practitioners who have relied on input from a third party should**, to the extent they have the expertise to do so,** consider the reasonableness and supporting evidence for the third-party input.'

More generally, we are unclear why this provision only relates to bulk transfers. Presumably it has wider applicability in providing robust professional advice and could equally be relevant to Scheme funding and financing (for example).

Similarly, we find the wording 'must use as much relevant information as is sufficient' to be quite odd. We would expect this is true of all advice and suggest this could simply be removed.

Buy-ins and buy-outs

As noted in our response to question 1 above, a buy-in does not fall within the definition of a bulk transfer as it does not result in the cessation of the ceding scheme's liabilities. When a buy-in policy moves to a buy-out (when the policies are transferred to members) then this does come within scope of section 5, but many of the requirements add little or no value at this stage (for example in P5.1 and P5.5, consideration of the credible alternatives and material impacts would be more relevant, and should have been considered, at the point of buy-in).

We therefore suggest refining the definition of bulk transfers to clearly include buy-ins. For example, this could be achieved by revising the final sentence within the definition: "The **bulk transfer** results in cessation of the scheme's liabilities for the transferring members' benefits, either immediately or where this would be expected to happen at a later stage (for example a buy-in transaction with an **insurer** will, in almost all cases, eventually progress to a buy-out)."

Buy-out pricing

The requirement in P5.3 that practitioners must use assumptions in relation to buy-out pricing which reflect current and anticipated future market conditions and insurers' practice is well intentioned. However, we believe compliance is difficult, perhaps unachievable, in practice. Anticipating future market conditions is a tall order, and anticipating future insurers' practice practically impossible, not least because of pricing confidentiality.

A significant improvement would be to revise the wording so that practitioners must '...use assumptions in relation to buy-out pricing which reflect current market conditions and insurers' practice at the time of providing the advice. Consideration should also be given to anticipated changes in these areas in the future.'

Nevertheless, we must recognise that there will still be a material degree of subjectivity within any estimate as there is a degree of volatility within market pricing dependent on supply and demand and insurer appetite to transact (especially for smaller schemes).

Practical limitations

Finally, the requirement under P5.7 that practitioners' communications must ensure the user is aware of ALL risks seems impractical and should probably say 'material' risks.

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?

While we agree with the content of P5.4 and P6.1, the requirements seem very specific and we believe should already be covered by the 'fit for purpose' model principles of TAS 100. We therefore expect such requirements might fall away in future updates but recognise the desire to highlight certain aspects in a new area of work.

We are unconvinced that these principles will make a material contribution to risk mitigation. If practitioners providing advice in this area are not aware of and actively considering the points on time horizons and extreme events, it may well suggest that there are potential for material issues or oversights in other areas of their modelling work. Highlighting these two items in isolation, potentially detracts from consideration of further areas where modelling might need additional attention.

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

Given that, for many schemes, buy-out is now a viable option, more consideration should be given to whether there is any need for additional provisions specifically related to technical actuarial work in the area of buy-ins and buy-outs.

For example, and linked to a comment in our response to question 7 above, clause P5.3 could arguably be extended to buy-in and buy-out discussions, rather than purely relating to potential Superfund transactions. It will, however, be important to be mindful of investment aspects (and advisors) as well as pension consultants when considering advice requirements.

TAS 310: Questions 10-19

We have not commented on these questions as we feel others will be better placed to provide meaningful feedback in this area.

Impact assessment

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

Taking into account the proportionality principle and your comments around not expecting the proposed changes to result in significant additional work for a factor review, we would agree. However, we believe some of the new wording could be improved to support this intent (such as removing the requirement to advise on multiple bases as set out in P3.4 and P3.7).

On bulk transfers we similarly agree, provided that proportionality can be applied to communicating the alternative options.

It is appropriate that new areas are subject to evolving standards to ensure an appropriate quality of advice. As noted, in the absence of any transfers to superfunds or establishment of CMPs, it is hard to comment on whether the TAS 300 compliance costs are appropriate and proportionate or if the requirements are unduly onerous.