



Government
Actuary's
Department

The Director of Actuarial Policy
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS
by email: APT@frc.org.uk

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Dear Actuarial Policy Team

Technical Actuarial Standards for Pensions

Thank you for the opportunity to comment on the Exposure Drafts of TAS 300 and TAS 310. Our response to the consultation questions is provided in the appendix to this letter.

We welcome the FRC's ongoing efforts to review the Technical Actuarial Standards, seeking to ensure they remain fit for purpose in an evolving environment. Whilst it is important to recognise and react to evolution in the pensions industry, it is also vital to ensure that the standards continue to work well in established areas. Some of our comments reflect this theme – most notably on bulk transfers and the forthcoming changes to scheme funding and financing.

Whilst, on balance, we largely support the proposals we do raise some concerns. There are a few places where we feel the FRC is unduly promoting one approach over all others.

We would be happy to discuss our response with you, should you have any questions or areas you would like to explore further.

Yours faithfully

Head of Technical and Professional

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Appendix

TAS 300: Pensions

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?

We agree with the inclusion of technical actuarial work relating to superfunds, although we have some concerns about the implementation of the provisions on bulk transfers. Please see our answer to question 7 for further details.

In principle, we support the proposed simplification of scope in relation to scheme funding and financing. A simpler description of scope is typically easier to apply, particularly for schemes – such as the public service pension schemes (PSPS) - which do not have standard employer/trustee governance roles.

This simplification on the scope of scheme funding and financing will bring more work into scope – particularly on the employer side. The additional work brought into scope will typically be less formal, and often not backed by legislative requirements. This lighter touch may be reflected in other aspects of the client engagement, such as the availability of budget for actuarial services. We believe the provisions are drafted with sufficient flexibility such that they will work in this context but note that TAS 300 has been primarily written with trustee work in mind. We have not identified provisions which are expected to cause difficulty when applied to a broader scope of employer work, but the extended scope makes it increasingly important that actuaries are able to comply proportionately. Compliance with professional standards must not become a barrier to engagement.

We note that work on Collective Money Purchase (CMP) pension schemes is intentionally left out of scope of TAS 300. We agree this approach, compared to the alternative where both TAS 300 and TAS 310 apply to CMP schemes in full. We do, however, see that certain broader aspects of TAS 300 could be relevant to CMP schemes, for example the sections on scheme modifications or bulk transfers. The FRC may wish to consider introducing some cross-referencing or signposting to ensure that standards are maintained across all types of pensions scheme.

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?

We agree with delaying changes in this area until there is greater clarity over the legislative requirements.

When you come to making changes in this area, please remember that not all pension schemes in the UK are subject to the standard scheme funding regime. GAD advises funded and unfunded PSPSs as well as several funded pension schemes which fall outside of Part 3 of the Pensions Act 2004. Together these schemes have many millions of members but, to a greater or lesser extent, do not have standard trustee / employer

governance arrangements. In addition to Appendix A of TAS 300 (suitably interpreted), the PSPSs are subject to prescriptive valuation reporting requirements through HM Treasury Directions.

We would be happy to discuss these issues with you further, either now or when you come to updating the scheme funding requirements in TAS 300. It will be important to ensure that further changes to TAS 300 do not have unintended consequences for these non-standard schemes.

We do not have any other concerns that require imminent action through the TASs. The FRC may wish to reflect on last autumn's 'LDI crisis' and consider whether lessons learnt warrant provisions within the Specific TASs or whether this is being adequately addressed through other regulatory channels.

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?

Frequency of review

We are content with the addition of P3.1 on the frequency of factor reviews. Given the range of circumstances which might arise, together with varied balance of powers, it is helpful that this provision is not too prescriptive. As drafted, P3.1 strikes an appropriate level of pragmatism.

Timing of review

We would like to see the wording of P3.2 softened. Whilst we recognise there is some flexibility within this provision, we feel the FRC's position is too strongly in favour of reviewing factors alongside the scheme funding assessment. There also seems to be an imbalance in the FRC's position, as we describe below.

Paragraph 2.17 of the consultation document acknowledges industry feedback against reviewing factors alongside the valuation. There are several reasons why this approach might not be appropriate. We believe actuaries should work with stakeholders to identify the most appropriate timetable, dealing with each case on its own merits. They should consider all relevant matters such as (but not limited to) the scheme's governing requirements, availability of governance time, strategic issues to be dealt with by the valuation and the extent to which factors are set to be cost-neutral on the valuation basis.

P2.9 requires valuation advice to describe how factors have been allowed for if they are not being reviewed in tandem. This is a sensible and helpful addition to TAS 300 and implies the FRC's tacit agreement that reviewing factors separately to the valuation is acceptable, and that circumstances may mean it is appropriate.

P3.2 strikes a different tone, strongly encouraging review in tandem ("should... seek to arrange"). To follow any other approach is to make use of the drafting flexibilities, seemingly going against the FRC's view of best practice. This is an uncomfortable place to be when trying to advise clients on the best approach for their scheme's specific circumstances. It

seems unnecessarily stringent given P2.9 and the industry feedback mentioned in the consultation. The client's best interests may be served by reviewing factors at a later date.

We suggest redrafting the second sentence of P3.2 to take a softer line:

"... Practitioners should consider, subject to the rules of the pension scheme and other pertinent issues, the extent to which decisions on factors should be made together with decisions on funding and financing."

We agree that the valuation needs to take account of factors in an informed and coherent manner, but we do not agree that the best way to achieve this is to always review factors alongside the valuation process. The actuary's advice on when to review factors is a matter of professional judgment, and TAS 300 should support the exercise of this judgement rather than prejudice it.

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

In general, we support the proposed changes to section 3.

P3.3b/c are useful additions, provided they retain the cushioning currently provided by words such as "consider", "relevant" and "material".

We also value the flexibility included in the drafting of P3.4 and P3.7 but wonder if it should be extended further. The requirement to compare relevant bases is helpful, but for some of the schemes we advise there will not be many "relevant bases". The instruction in the second part of P3.4 that "relevant bases include" could be more helpfully expressed as "relevant bases would normally include".

For example, many bases are not relevant in an unfunded PSPS - there are no assets to deliver a long-term funding objective and no expectation of purchasing an insured annuity. Whilst we would consider what comparisons might be helpful, we would not want to obscure the key messages of our advice by including comparisons which are not relevant.

On similar grounds, we are content with P3.5 and P3.8 in principle, but there will be circumstances where de-risking is not relevant.

We are content with the inclusion of P3.9.

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.

No. TAS 300 should support the production of high quality technical actuarial work, but it should not be too directive in terms of how to achieve this. Discussion of matters such as this could be addressed in supporting guidance – if the FRC felt there was a pressing need to help actuaries' thinking in this area.

It would be difficult to draft mandatory TAS provisions that offer much value whilst recognising the variety of scheme circumstances that might arise. For example, in many of the PSPSs commutation rates are a benefit design matter, and therefore not subject to influence by the actuary.

Actuaries must also take care when considering value for money for members so as not to stray into providing, or being perceived to provide, individual financial advice. What represents fair value to the average member may look quite different on an individual basis.

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?

We are concerned that section 5 focuses too strongly on the 'end game' for Defined Benefit pension schemes and will have unintended consequences for some of our advice. We recognise that end game is the direction of travel for many schemes, but it does not reflect the full range of DB pensions in the UK – in particular, the substantive ongoing pension rights accrued in the PSPSs.

There are still 'regular' bulk transfers taking place between pension schemes (rather than to an insurer or a superfund). These transfers are often as a result of government policy in connection with staff transfers of current or former public sector staff (see [GAD website](#) for more details). We need to ensure these transfers can continue without unnecessary burden on schemes or on actuarial advice.

As drafted, we are concerned that section 5 will require additional disclosures in our advice which will be of minimal value to the intended user (or any other stakeholder). These transfers are typically a matter of implementing government policy – there is no credible alternative.

Our concerns are focused on P5.1a, P5.1d and P5.5. We would appreciate additional drafting flexibilities to ensure that disclosures of limited value are not required. The phrase 'where relevant' in P5.1a is helpful but is limited to transfers to superfunds and insurers. Would the FRC be content with advice that doesn't include any commentary on credible alternatives, on the basis that there are none? Do we need to explicitly say there are no credible alternatives available? This doesn't seem helpful when implementing government policy and is likely to raise more questions than it answers.

Reading paragraph 2.45 in the consultation, P5.1d seems to be drafted primarily with a view to bulk transfers to insurers or superfunds, and yet it applies to all bulk transfers. It is not entirely clear how this should be interpreted for bulk transfers between pension

schemes - which governing body are we concerned with? It's difficult to see this provision leading to helpful commentary for schemes governed by legislation.

If additional drafting flexibilities are too difficult to implement, one solution would be to amend the definition of bulk transfer to create a carve out for bulk transfers arising from government policy in connection with staff transfers. We would be happy to discuss this option but recognise it doesn't fit the FRC and GAD's preferred model of broadly applicable standards. This would be a reduction in scope compared to the current TAS 300.

Another option would be to restructure section 5 to separate out the requirements in relation to bulk transfers to insurers or superfunds from bulk transfers between pension schemes (perhaps, in effect, inserting 'regular' bulk transfers back into section 4). Given the different issues affecting these different types of transfers, we would favour this approach.

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?

The wording of P6.1 is reasonable, although arguably adds little to the requirements enforced by TAS 100's Principle 5 (models are fit for purpose) and A5.1 (having sufficient regard to extreme events or outliers).

We are slightly concerned by the underlying rationale for this provision, as set out in paragraph 2.57 of the consultation. This states that actuaries should 'follow best practice' from capital reserving calculations in the insurance industry. We agree that reserving practice may offer helpful insights on extreme events but note that it typically focuses on 1-year stress tests rather than 5-year stochastic modelling. It is important that practitioners learn from all relevant best practice across the industry and this, in our view, is not limited to capital reserving. Any regulatory emphasis on one area may favour advisers already operating in that arena, to the detriment to broader thinking and inclusion. That said, this emphasis is not evident in the proposed provision P6.1.

More generally, we note TPR's governance of superfunds is on an interim basis, in place until longer-term legislation is put in place. DWP has recently published its [consultation response](#) on DB pension scheme consolidation. This includes proposals to test the capital adequacy of superfunds with an annual solvency test. As for scheme funding and financing, it may be appropriate to delay issuing TAS 300 provisions until there is greater long-term legislative certainty and permanent guidance from TPR.

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

No.

TAS 310: Collective Money Purchase Pensions

We have provided some specific comments below, but otherwise not answered many of the remaining questions. For the avoidance of doubt, we feel that the Exposure Draft of TAS 310 adequately covers the relevant issues for actuaries completing technical actuarial work on CMP schemes and the provisions are reasonable.

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.

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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?

We feel that the wording of P3.3 is too strongly in favour of stochastic modelling, even allowing for the fact it has been phrased using 'should' rather than 'must'.

Paragraph 3.18 in the consultation recognises there may be circumstances where practitioners feel stochastic modelling is not required. The consultation goes on to say how practitioners are expected to approach such situations, but this does not appear in TAS 310.

Whilst there is flexibility to follow alternative modelling approaches, the preference for stochastic modelling is clear. Practitioners may feel uncomfortable going against this, even with valid reasons to take an alternative approach (for example concerns about whether their intended users will understand the implications of stochastic modelling). The FRC should be alert to the fact that there may be other ways to best tackle this modelling, either now or in the future.

It is also important to ensure that the emphasis on stochastic modelling does not act as a barrier to entry to working on CMP schemes. Different perspectives should be welcomed in this new area of actuarial work, as we seek to avoid the emergence of herd behaviour.

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.

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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.

Linked to our answer to question 12, we challenge whether the word 'stochastic' is needed in P5.3.

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?

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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.

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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.

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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?

We note that TAS 310 is following TAS 300's example by including an Appendix A, listing items to be included in the valuation report. This level of prescription within TAS 300 has previously been subject to challenge. We assume that Appendix A's continued presence in TAS 300, and now the establishment of a similar list in TAS 310, means that the FRC is content this level of prescription is appropriate. It is at odds with a principles-based guidance framework, but it is useful to capture this level of detail somewhere – we have no substantive objections.

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.

We understand the rationale for not stating a maximum recommended period between factor reviews in TAS 310, when a 3-year limit is stated in TAS 300. As noted in paragraph 3.48 of the consultation document, annual valuations and viability certificates “should” drive regular reviews of factors. The FRC is, however, making an assumption here and we recommend you monitor practice as evidence emerges. The 3-year limit is only now being introduced into TAS 300 – presumably to improve standards in light of current practice. Would it be preferable to set a limit for CMP schemes now and remove it if becomes evident it is not necessary, rather than risk having to act later if regular reviews are not seen in practice?

The requirement in P7.2 that factors should be cost-neutral on a central estimate appears somewhat directive and narrowly targeted when compared to the proposed requirements in TAS 300 to include comparisons of multiple bases. Would it not be helpful for CMP schemes to understand the impact of different bases? There may be scheme design reasons why the CMP scheme wishes to set factors in a way that is not cost-neutral and the actuary’s advice must address that. If the FRC prefers not to explicitly require comparisons then perhaps softening the wording would help: “... the factors illustrated should include factors that are cost-neutral on a central estimate basis?”

In addition, we question whether it is within the remit of the TASs to specify a preference for a cost-neutral basis in this way. This links to our answer to question 5 on commutation factors in TAS 300.

We are content with P7.4 and P7.6 on selection risk. This is a subjective area but one which is important to consider and communicate clearly. The provisions are a helpful reminder to do so.

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

In general, we agree with the impact assessment and the view that many of the proposals are in line with existing good practice. However, as noted in our response to question 7, we believe some of the bulk transfer provisions will have an impact on standard bulk transfers between pension schemes. If the standard remains as currently drafted, this will incur additional ongoing costs in the production of actuarial advice. These costs are not expected to be significant, but they are also not expected to bring significant benefits to the intended user.