Proposed amendments to Technical Actuarial Standards for Pensions

Response to FRC consultation

August 2023

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Technical Actuarial Standards for Pensions

Dear Sir/Madam

Hymans Robertson is pleased to provide its response to FRC's consultation on proposed amendments to technical actuarial standards for pensions. We have provided responses to the consultation questions relating to specific changes to Technical Actuarial Standard 300 where we feel further consideration is needed. These are questions 7–9, which relate to bulk transfers.

We agree with the proposed requirement for trustees to consider insurance, and there may also be merit in explicitly comparing the pension and insurance regimes. However, we're concerned about the proposed requirement to consider 'credible alternatives' – time, effort and cost constrain how far an actuary can do so. It's also unclear how actuaries would reflect anticipated future market conditions and insurers' practice in their assumptions.

Some scenarios will meet TPR's third 'gateway principle' without the need for modelling. We suggest TAS 300 makes clear that if the scheme actuary decides not to undertake detailed modelling, they should explain why.

If superfund transfers are to be included in TAS 300, there may be merit in considering alternative risk transfer as well – specifically, capital-backed funding arrangements. There have been no superfund bulk transfers, but several providers offer capital-backed funding arrangements, and we've already seen the first transaction.

We'd be happy to discuss our answers to these questions in more detail, so please don't hesitate to get in touch.

Yours sincerely

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Responses to consultation questions 7–9

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?

We agree with the requirement in P5.1 for trustees to consider the options available to them, including insurance or retaining liabilities with the scheme. There may also be merit in requiring schemes entering into a buy-in to explicitly compare the strength of the pension regime with the insurance regime. Insurance clearly represents a high level of security, but well-funded schemes with an ongoing sponsor and less investment risk than an insurer would typically adopt can also be secure, and this comparison would add to the information that decision-makers have.

However, we're concerned about the proposed requirement to consider 'credible alternatives' to a potential bulk transfer. Realistically, no scheme is going to review all credible alternatives, because of time, effort and cost. The FRC needs to be clear on how it deems the standard of 'consider' to be met, and the result will affect the extent to which decision-makers are fully informed when considering potential bulk transfers.

P5.3 requires practitioners to 'use assumptions in relation to buyout pricing which reflect current and anticipated future market conditions and insurers' practice', but it's unclear how they would do so in practice. It's unrealistic for actuaries to form a view on future credit spreads or insurer target profit margins, for example. The future funding level is also subject to asset performance, and so this requirement only affects one side of the balance sheet.

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?

The proposed modelling requirements in P5.4 and P6.1 relate to TPR's third 'gateway principle': a transfer to the chosen superfund must improve the likelihood of members receiving full benefits. In some scenarios, this principle will be met self-evidently, and might not need stochastic modelling, as the proposals imply.

For example, modelling might not be required to compare a superfund with a 99% change of being fully funded in five years against a loss-making, asset-poor sponsor of an underfunded scheme with limited scope for contributions in the near future.

We suggest the standard makes clear that the scheme actuary should consider modelling requirements, and if they decide not to undertake detailed modelling using appropriately calibrated systems, they should explain why.

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

If superfund transfers are to be included in TAS 300, there may be merit in considering alternative risk transfer as well – specifically, capital-backed funding arrangements. These change the risk profile of a scheme supported by a capital buffer, but are not subject to TPR superfund guidance, are not bulk transfers and are not expected to be within the scope of superfund legislation.

When considering capital-backed funding arrangements, trustees are therefore solely reliant on the advice they receive from professional advisers. At the time of writing, there have been no superfund bulk transfers, and one provider has completed TPR's assessment process. In contrast, several providers offer capital-backed funding arrangements, and we've already seen the first transaction (Aspinall in 2020).