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3rd August, 2023

Subject: Consultation on proposed changes to Technical Actuarial Standards for Pensions

Dear Sir

We welcome the opportunity to respond to this consultation. Mercer is one of the largest employers of actuaries in the UK.

While we are broadly supportive of most of the proposals, we have some concerns around the proposed wording relating to the change to the scope of TAS 300 which are set out in our response to question one.

Our detailed responses to the consultation questions are set out in the appendix to this letter.

We would welcome the opportunity to discuss our response further with you if that would be helpful.

Yours sincerely

Charles Cowling

Enclosure

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Appendix A
Proposed changes to TAS 300

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?**

   The proposal is to change the scope of TAS 300 to cover "Technical actuarial work concerning pension scheme funding and financing". The consultation document notes that this is to clarify that the TAS applies to 'funding and financing' work performed for both trustees and sponsoring employers. However, the phrase 'scheme funding and financing' could encompass a wide range of work relating to a pension scheme. It potentially widens the scope for trustee work as well as for work for employers compared to the current TAS 300, where section 2 largely applies to work required by legislation, mainly scheme funding valuations.

   For example, the proposal could bring work such as advice to an employer on DC contribution rates or accounting work into the scope of section 2. It is not clear from the consultation that the FRC intends to broaden the scope in this way. If this is not the intention, then we would suggest that further clarification of the scope is required.

   We don't believe that there are any other areas of pension work that are inadequately covered by TAS 300.

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 the intention to defer changes to the requirements under scheme funding and financing given the lack of certainty. However, we hope that once the regulations and funding code are finalised, any changes to TAS 300 could then be considered soon afterwards and preferably, if the timing allows, before the regulations and funding code come into force, so as to avoid having to make changes to valuation documents more than once.

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 fully support the proposals in relation to the frequency and timing of actuarial factor reviews.

   Our view is that trustees should generally be reviewing factors at intervals of at most three years. As schemes approach a long term objective (and particularly where that objective references buy-out or buy-in) factors in most circumstances should become more directly market related, resulting in an increasing need for more regular review.

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 consider Section 3 to be an improvement on the previous TAS 300. However, the proposed section still does not cover some factors that we believe are necessary to enable decision-makers to reach a fully informed view. Critically, it does not mention the rules of the pension scheme (and other legislative requirements), level of scheme funding or strength of covenant, all of which may also influence how factors are set. It is possible that such references have not been included on account of them being a matter for the legal or covenant advisors, however other areas of the TAS do refer to the rules of the pension scheme, legislative requirements and third party advice.

   We assume that the requirement in P3.4 that "Practitioners …must consider a comparison of the proposed commutation factors with all relevant bases" permits Practitioners to determine that some of those comparisons do not add value in particular cases?

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 support the proposed principles based approach, whereby TAS 300 sets out areas which should be considered when providing advice on actuarial factors, but do not believe that TAS 300 should specify how they are set.

   This is because schemes differ in terms of their benefits, Trust Deed and Rules and general circumstances, so no one approach will suit all schemes. Our view is that the Scheme Actuary is best placed to advise governing bodies over the choice of actuarial factors since they will be aware of all the information that is relevant to the specific scheme and how this might change over time.

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

   Please see our response to question 4. In addition, we would suggest that where Schemes are approaching buy-in or buy-out that they consider the factors that will apply after that event and consider that when providing advice regarding factors.

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 suggest that it would be helpful for the FRC to clarify whether section 5 applies to advice relating to a buy-in where the expectation is that this will be followed at some stage by a buy-out transaction. We understand that the FRC has stated that this section would not necessarily cover a buy-in, as a buy-in is primarily an investment strategy decision. However, once a pension scheme has a buy-in in place, then subsequent options may be more limited.

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?**

   No

TAS 310: Collective Money Purchase Schemes

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.**

    We agree that the existing requirements should apply to new whole-life multi-employer CMP schemes. But we question why there should be a wait of an entire year after the first CDC scheme being 'in operation' for TAS310 to take effect? We suggest this timescale is accelerated as any scheme being set up would benefit from knowing the actuarial standards that will apply.

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.**

    The definition of central estimate in the appendix is more expansive and more helpful than the definition in regulations. However, it should be framed in those terms i.e. a further explanation of the regulatory definition, rather than a separate definition.

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 suggest that there is increased linkage between the approach to stochastic modelling and the use of ‘central estimates’ in funding assumptions. For example, should the median outcome be based on central estimate assumptions?

    “The FRC expects the modelling of a CMP scheme to include assumptions around future events, such as decisions relating to future valuations…” The precise meaning of this should be clarified. Are trustees expected to anticipate how their successors might make decisions?

    References to practitioners explaining scenarios relating to benefit adjustments should refer instead to ‘example scenarios’ to avoid any suggestion that ‘all scenarios’ will be covered.

    P3.2’s reference to ‘probabilities’ should refer instead to ‘estimated’ or ‘illustrative probabilities’. It should refer also to the time-periods over which the illustrative probabilities are to be assessed.

    P.3.4 should be based less on practitioners ‘considering’ and more on ‘practitioners communicating’.

    P.3.5. which states that ‘*practitioners’ communications should explain how recommendations and decisions could be materially different under credible alternative modelling methodologies or modelling assumptions’* appears too open-ended.

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.**

    The provisions here appear reasonable, although in relation to ‘how these limitations have been addressed’, we suggest that ‘addressed’ is replaced with ‘taken into consideration’.

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.**

    Should the period over which ‘soundness’ is certified be made clear?
    We agree that ‘soundness’ does not require a definition.

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?**

    Yes, that consistency seems sensible to us.

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.**

    It may be helpful for trustees periodically to survey members' understanding of soundness in order to gauge whether existing soundness measures are connecting with members.

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.**

    We do not agree that actuarial valuations be forever anchored to the first ever 'gateway test'. P.6.2 refers to 'alternative central estimate assumptions', which are also described as 'credible'. This raises the question of why these alternative assumptions have not been adopted. Also, there is a risk of encouraging group-think?

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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