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The Director  
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Dear Sir

**Response to consultation: Discussion paper on actuarial mortality assumptions**

Following the consultation paper issued by the Board of Actuarial Standards (BAS) on actuarial mortality assumptions, we would like to provide our response to that consultation.

Balfour Beatty has significant pension liabilities and runs three defined benefit and defined contribution pension schemes, the largest of which has around 17,000 pensioners and 22,000 non-pensioners.

While we found the consultation paper a well thought out document we do have several areas we would like to comment on as we have somewhat different views to those expressed in the consultation paper.

In summary, we would suggest that it is appropriate to select different future mortality improvement assumptions for different population groups, provided that a suitable rationale can be advanced for their selection specifically including relevant experience.

We suggest that it is appropriate to allow past pension scheme specific evidence to influence the assumption for future improvements where that evidence is based on good quality and credible data. To dismiss available evidence out of hand is wrong and while we encourage education on the limitations of using such evidence based approaches to influence the future mortality assumptions, we believe that pension schemes should not be prevented from using such practices. Not allowing actual scheme experience, where it is of a credible size, to influence the future assumptions will discourage the holders of data from building increasingly large and credible data sets, a practice that will aid all stakeholders investigating mortality. We are also aware of insurance providers who use past experience (albeit on large data sets) to influence their assumptions for the future.

We would further disagree with any standard that required the use of the most recently applicable published tables. Pension schemes should be allowed to refer to older series of tables where there is credible experience and where such tables, in combination with appropriate mortality improvements over the intervening period, provide a better fit to actual mortality experience.

We reply to each of the specific questions raised in the discussion paper below.

**Question 1: Do respondents have any views on the significance of the adverse effects that over- or underestimation of future mortality may have on pension scheme members, scheme sponsors, life insurance policyholders and life insurance companies?**

Under- or over-estimation of future mortality rates can have severe consequences for both members and companies.

The inability of companies to withdraw surplus from over-funded pension schemes acts as a significant risk to over-funding DB pension schemes from an employer's perspective. If standards on mortality assumptions are too prescriptive and, as a result, overly prudent then this will tie up capital in the pension scheme which could be better used within the business to the advantage of all stakeholders, including pension scheme members.

Standards that rigidly enforce over-estimation as a buffer for prudence may look like they offer increased protection to members but will have the effect of encouraging companies to find ways to reduce benefits and may even imperil the financial stability of some companies to the detriment of all scheme members and the PPF.

A reasonable objective for legislators and those setting standards would be to promote education and reasonable prudence on mortality risks. Legislators and those setting standards should understand the uncertainty of future mortality rates, and legislation should include mechanisms that allow the economic effects of emerging experience to be reasonably managed, without placing excessive risk on the pension scheme member or the employer supporting it.

**Question 2a: Do respondents have views on appropriate methods of communicating the extent and impact of the inherent uncertainty involved in mortality assumptions?**

We have found it useful to understand uncertainty within the mortality assumptions used by our pension schemes by observing the impact of different assumptions on the Technical Provisions and providing this information to relevant interested parties.

**Question 2b: Do respondents agree that the use of separate assumptions for base mortality and future changes in mortality, not taking the form of margins in other assumptions, would be desirable?**

We believe that separate explicit assumptions for base mortality and future changes in mortality would often be appropriate.

**Question 2c: Do respondents have views on appropriate methods of communicating the significance of assumptions, both in absolute terms and relative to that of other assumptions?**

We agree with the methods suggested in the discussion paper.

**Question 3a: Do respondents foresee any practical difficulties in communicating the assumptions about subsequent changes in mortality rates underlying life expectancy statistics?**

A comparison of life expectancy is useful to illustrate the allowance for future changes. It is important for any standards coming from BAS to be 'joined up' with the way the Pension Regulator intends to monitor the assumptions that pension schemes are adopting for Scheme Specific Funding Valuations.

**Question 3b: Do respondents have suggestions for summary statistics that can be used to describe changes in mortality rates?**

The value of particular summary mortality statistics will depend on the circumstances of the particular matter under consideration.

**Question 3c: Do respondents think that the use of benchmarks is useful, and if so, should the development of standard benchmarks for future changes in mortality be encouraged?**

Benchmarks may prove useful, but the risks of using a benchmark should be fully understood and examined before being adopted.

**Question 4a: Do respondents agree that the BAS should set some standards for mortality assumptions?**

We do not think that BAS should set standards for mortality, except perhaps in the area of disclosure but should provide detailed guidance to actuaries on these various issues.

In terms of standards on disclosure, we would suggest that it would be appropriate to require a statement as to the rationale for mortality assumptions and the evidence produced and used in setting any mortality assumptions.

**Question 4b: Do respondents agree that reporting standards would play a significant role in increasing the transparency of assumptions and their comprehensibility to users of actuarial information?**

We agree that reporting standards that are well thought out and clear will play a useful role in increasing the transparency of assumptions.

**Question 4c: Do respondents have any comments on how to assess the likely impact of possible BAS standards for mortality assumptions?**

We would recommend that BAS undertakes a pilot project with both pension trustees and companies before committing to any particular standards for mortality assumptions.

**Question 5a: Do respondents believe that it would be desirable for a BAS standard to require the use of the most recent applicable published tables, taking into account both the communication problems and the practicality of setting a limit on the tables to be used?**

We would not agree that it is desirable to require the use of the most recent applicable published tables. Where a pension scheme has credible experience and that experience shows that tables from older series in combination with appropriate mortality improvements over the intervening period provide a better fit to actual mortality experience then this should be allowed.

The analysis of our scheme has shown some interesting differences in terms of the shape of mortality and therefore where an older table fits this shape better, and if the data is credible, then it should be allowable for this older table to be used. To do otherwise is not consistent with an evidence based approach to base mortality.

**Question 5b: Do respondents have any comments on the proposals for possible requirements for reporting on assumptions about base mortality, criteria that assumptions should meet, or limits that should be observed when setting assumptions?**

The suggested requirement to use tables published after a certain date, which as discussed above we disagree with, would need at a minimum to be qualified to the extent that the newer series did not contain at least as varied a selection of tables for different products and subgroups of the population, such as smokers and non-smokers, as was the case under the older series.

**Question 6a: Do respondents agree there is no objective basis for differentiating the future changes in mortality likely to be experienced by a particular small group of lives from those likely to be experienced by the population as a whole?**

We believe that where a pension scheme is large enough and has sufficient good quality data to make any allowance credible then, as long as any divergence is examined and the implications of using the alternative assumption understood, standards should allow pension schemes the ability to let past data influence their expectation for future improvements.

As mentioned, earlier standards on reporting and communication of mortality assumptions are important in ensuring this flexibility is not abused and is only used where credible data allows and consideration has been given to the implications of using a particular basis that differs from the population as a whole.

We would regard it as appropriate that any such use of data is certified as credible by an actuary based on compliance with guidance from the BAS.

**Question 6b: Do respondents have any comments on the proposals for possible requirements for reporting on assumptions about future changes in mortality, criteria that assumptions should meet, or limits that should be observed when setting assumptions?**

As mentioned above reporting is very important to the use of mortality assumptions. We recommend this is something that is looked into in depth when pilot investigation groups are set up. We are opposed to the use of arbitrary floors.

**General comments:**

3.13 - Whilst we would agree that a long-term projection model might be based on trends in mortality experience spanning a long period, such models could also be based on large population databases considered over a shorter time period where trends over that time period were more consistent within the data period and more likely to be replicated in future years.

6.58 - Prudent and best-estimate assumptions are presented as if these are alternative point estimates based on an objective assessment or statistical analysis. The assessment of a set of assumptions as being "prudent" requires a subjective judgement as to the margin of conservatism that would be appropriate, and this margin might be expected to vary for different purposes and between different users of mortality information.

6.61 - We would suggest that it would only be necessary to make allowance for continued cohort effects where historical mortality experience at the level of aggregation considered by the particular model had shown evidence of a cohort pattern to mortality improvements, and where there was reason to assume that such cohort patterns would be expected to continue to older ages.

Yours sincerely



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**Director of Planning & Development**