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Dear Louise

Actuarial Mortality Assumptions – Discussion Paper

This is a response from the pensions advisory practice of KPMG LLP, to the above discussion paper.

Overall, we believe the paper sets out the background to the issues fairly and comprehensively. We have comments only on the following questions from section 7 of the paper.

- 2a)** There is no single best way of communication of these issues. This depends on the recipients of the advice, their knowledge and understanding, and the purposes of the advice. We would therefore caution against a prescriptive approach.
- 2b)** We agree that transparency of assumptions is desirable, and so agree that adjustments within other assumptions to allow for mortality changes are not appropriate.
- 2c)** As for 2a) above.
- 4a)** We would favour generic standards for mortality assumptions. Any attempt to impose limits or benchmarks is likely to result in herding of assumptions around such limits or benchmarks, at the expense of full consideration of the merits of each particular case.
- 5a)** We do not agree with the prescription of “the most recent applicable published tables”, in part because of difficulties with definitions of “applicable” and “published – published by whom?”.

Further, the example approach given in section 5.25 should not be dismissed as it has been in section 5.26. It is surely most important to use mortality assumptions most suitable for the particular entity in question, and if an old table has the best “shape” of mortality rates, then an adjusted version of that table should be used. We accept that this can give rise to communication problems, but this should be addressed in requirements for such communications, not by outlawing the approach.

- 6a) We think that section 6.23 dismisses too lightly the past evidence of long-term differential rates of improvement. The arguments put forward could equally be applied to overall assumptions about future rates of improvement (i.e. that these should be set with no regard to past history).

A different reason for requiring different assumptions about rates of improvement is the purpose of the valuation being made. – e.g. a best estimate valuation for pensions accounting purposes arguably should use different assumptions than required under “prudence” for Pensions Act 2004 scheme funding purposes.

As a general point, we would stress the need for any standards or guidance to be not overly onerous for stakeholders (and their advisers) – it should be proportionate, particularly for smaller entities. Any requirements which are more onerous than at present should have their benefits carefully weighed against their costs of implementation and understanding.

Linked to this point, we would also caution against being too prescriptive in any standards. It is the overall strength of mortality assumptions which is of greatest importance, rather than being able to tick all the right boxes for standards set for each component part of a mortality basis.

Yours sincerely

Gordon Sharp
Director