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The Director
Board for Actuarial Standards
5th Floor – Aldwych House
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London WC2B 4HN

Our Ref: JM/JB/4.1

June 20th 2008

Dear Sir,

**BOARD FOR ACTUARIAL STANDARDS: ACTUARIAL MORTALITY ASSUMPTIONS –
DISCUSSION PAPER**

INTRODUCTION TO SPC

SPC is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPC's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPC is the only body to focus on the whole range of pension related services across the private pensions sector and, through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interested body or group.

Many thousands of individuals and pension funds use the services of one or more of SPC's Members, including the overwhelming majority of the 500 largest UK pension funds. SPC's growing membership collectively employs some 15,000 people providing pension-related advice and services.

Your letter has been considered by SPC's Actuarial Committee, which comprises actuaries from consultancy and life office backgrounds.

COMMENTS ON THE DISCUSSION PAPER

Question One: Do respondents have any views on the significance of the adverse affects that the over or under estimation of future mortality may have on pension scheme members, scheme sponsors, life insurance policy holders and life insurance companies, as set out in section 2?

In the pensions field, if one overestimates future mortality rates, in our view, the most significant consequence is likely to be that contributions will be set too low.

However, where the employer continues to exist, the provision for regular funding reviews means that there is the scope to correct the position.

The consequences of overestimating mortality are more significant in the life insurance field, where there is only one opportunity to set the premium at the right level.

However, it needs to be kept in mind that changes in market conditions could have a far more significant affect than any over or under estimate of mortality.

The Society of Pension Consultants

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Question Two: The BAS has discussed some of the issues surrounding mortality assumptions in section 3. In that context:

(a) Do respondents have views on appropriate methods of communicating the extent and impact of the inherent uncertainty involved in mortality assumptions?

We suggest that the most straightforward way of expressing the uncertainty and impact of mortality assumptions is by describing the change in the liabilities of a pension scheme if pensioners live for, say, one year less or more than assumed, while explaining that there can be no certainty on how likely it is that the members will live for a greater or lesser period than had been assumed.

At the same time, it could be explained that the extent of uncertainty for younger members is generally greater than for older members, because projections extend further into the future, although the impact on liabilities for younger members is reduced as a result of the longer term over which benefits are discounted.

(b) 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?

Yes.

(c) 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 have no comment.

Question Three: Some proposals regarding the use of summary statistics and benchmarks in reporting on mortality assumptions are considered in section 3.

(a) Do respondents foresee any practical difficulties in communicating the assumptions about subsequent changes in the mortality rates underlying life expectancy statistics?

We have nothing to add to our answer to question 2(a).

(b) Do respondents have suggestions for summary statistics which can be used to describe changes in mortality rates?

We view life expectancy statistics as the best option. For smaller schemes, changes in annuity rates might also be useful, but one would then need to build in a further assumption on interest rates.

(c) Do respondents agree that the use of benchmarks is useful and, if so, should the development of standard benchmarks for future changes in mortality be encouraged?

We would have some concerns over the development of standard benchmarks laid down by the BAS. There is a risk that, simply by virtue of their existence as officially designated benchmarks, they would be adopted by schemes when this would not otherwise have been the case.

Furthermore, the Continuous Mortality Investigation already offers its library of assumptions.

Scheme specific benchmarks could, however, be a helpful option.

We would also question whether providing more information to pension trustees would actually assist their decision making, unless it is presented on a very straightforward basis.

Question Four: The BAS would welcome general comments which respondents might have on the various possibilities for standards set out in section four. In particular:

(a) Do respondents agree that the BAS should set some standards for mortality assumptions?

We agree that reporting standards for mortality assumptions could be helpful.

Considering the five possibilities set out in paragraph 4.17, we suggest that standards on describing the assumptions which have been chosen would need to take into account that many schemes already have an established practice on describing the assumptions and that the imposition of a standard, which required the description to be changed, could cause confusion.

The second and third suggestions are reasonable, and appear in effect to describe sensitivity analysis.

There is a risk that the fourth and fifth possibilities could lead to over detailed reporting.

We have concerns about the proposal in paragraph 4.20, that the BAS could also set standards which prescribe criteria which assumptions should meet. How one draws the boundary between prescribing assumptions themselves (which we consider would be inappropriate) and prescribing the criteria for assumptions is not clear to us. We would not support specifying the appropriate form which evidence might take. This would be disproportionate, particularly for small schemes.

Turning to setting limits on assumptions, we note the caution expressed on doing so and we would not support setting limits. The Pensions Regulator is considering something similar. We have expressed our misgivings on this score, but at the very least there would appear to be a risk that any limits imposed by the BAS might be inconsistent with those contemplated by the Pensions Regulator.

Overall, we consider that it is more important to have the right reporting standards than to lay down criteria for assumptions.

(b) 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 have nothing to add to our previous responses.

(c) Do respondents have any comments on how to access the likely impact of possible BAS standards for mortality assumptions?

We have nothing to add to our previous responses.

Question Five: In section 5, the BAS considers possible standards for assumptions about base mortality.

(a) Do respondents believe that it will 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 foresee some difficulty in defining what the “most recent applicable published tables” would be in any particular case. For example, would the expectation be that the applicable table would have to be published by ONS or by CMI?

(b) Do respondents have any assumptions on the proposals for possible requirements for reporting on assumptions about base mortality, criteria which assumption should meet, or limits which should be observed when setting assumptions?

We have no comments.

Question Six: In section 6 the BAS considers possible standards for assumptions about future changes in mortality.

(a) Do respondents agree that 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?

Yes.

(b) Do respondents have any comments on the proposals for possible requirements for reporting on assumptions about future changes in mortality, criteria which assumptions should meet, or limits which should be observed when setting assumptions?

No.

Yours sincerely

John Mortimer
Secretary