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Dear Sir

BAS consultation on TAS P

I am writing in response to the consultation paper on the proposed pensions standard. In answer to the particular areas where views were welcomed:

1 Will the proposed purpose of the pensions TAS that is set out in paragraph 2.3 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?

The purpose is quite narrowly defined – although for the ‘reliability objective’ the purpose of the TAS is adequate, there are other actuarial duties covered by the TAS which do not result in advice and do not affect the benefits payable to members (ie some of the certification requirements for example round PPF levy valuations) - in such cases the users of the information may be regulatory bodies or the information has been provided merely as a compliance exercise (and here the main focus should be in ensuring that the calculations and information are correct and compliant). Either the purpose needs to state that this work is not affected by the reliability objective or wording should be added to reflect the additional tasks.

2 Do respondents agree that all Reserved Work concerning occupational pension schemes should be within the scope of the pensions TAS? (paragraphs 4.2 to 4.7)

Yes – for consistency and in order to give clarity for actuaries. However note that some reserved work usually requiring a Scheme Actuary is not necessarily carried out by the Scheme Actuary – for example when a scheme is between Scheme Actuary appointments (an example here would be PPF certifications). It may be helpful therefore to qualify such cases as ‘usually’ carried out by a Scheme Actuary (or ‘carried out by the Scheme Actuary where one exists’). We would expect such work also to be Reserved work and subject to the TAS.

3 Do respondents agree with our intention that the pensions TAS should apply to work in connection with occupational pension schemes which is almost always carried out by an actuary and which is used to make important financial decisions or which might affect the level of benefits payable to members? (paragraph 4.11)

We do agree with this approach in concept. However this would mean that all the requirements of the generic TASs will then also apply – which may then bring the risk that those requiring non-reserved work will choose not to use an actuary.

4 Should the pensions TAS cover the non-Reserved Work listed in paragraph 4.26?

Subject to the comment as for question 3, we agree that the listed work should be subject to a TAS (whether the pensions TAS or another standard). We note that 4.14 refers to 'any work carried out for the scheme sponsor...' although the list in 4.26 defines this as 'any actuarial work' and ties in better with paragraphs 4.43-4.

5 Do respondents agree that the areas of work described in paragraphs 4.29 to 4.33 should not be in the scope of the pensions TAS?

We agree that accounting and investment should not feature in the pensions TAS. Clearly funding advice is linked to investment strategy and pensions actuaries frequently give strategic advice in this area, however the fact that such advice will frequently be given by non-actuaries makes it inappropriate to constrain just actuaries to use TAS P. We note that asset/liability modelling will fall under TAS M. It is not clear how advice around funding triggers or liability matching would fit in, although setting triggers would fall under modelling.

6 Should the following areas of work performed in connection with defined contribution schemes be within the scope of the pensions TAS:

- a) scheme design; (paragraph 4.35)**
- b) benefit projections; (paragraph 4.36)**
- c) any other work? (paragraph 4.37)**

Although it would be desirable for benefit design work to fall under TAS P, the fact that advice on this may be given by non-actuaries would make it inconsistent to require compliance with TAS P and the other TASs.

7 Should work performed in connection with mergers and acquisitions be in the scope of the pensions TAS? (paragraphs 4.38 to 4.40)

The practicalities of the work (and the particular nature of the work) here would mean that actuaries involved in such work would have great difficulty if they are compelled to meet the various requirements. In practice, most actuaries would be complying with many of the requirements anyway, but we believe that some would be unworkable unless some opt-out were permitted.

8 Should work for scheme sponsors on inducements to transfer be in the scope of the pensions TAS? (paragraphs 4.41 to 4.42)

Again as such work will often not be carried out by actuaries it would be inappropriate to require actuaries to comply with TAS P. Calculation of the transfer value itself and advice on the funding impact would be covered elsewhere in the TAS.

9 Is there any work for scheme sponsors other than work on Scheme Funding where agreement is required and inducements to transfer, that should be in the scope of the pensions TAS? (paragraphs 4.43 to 4.44)

Benefit costings provided for the employer are not covered here – and we feel they should be for consistency with the advice for trustees.

10 Is there any other work which is not mentioned above that should be within the scope of pensions TAS? (section 4)

No

11 Do respondents have any comments on the proposals concerning data that are presented in section 5, especially those in paragraphs 5.7, 5.10 and 5.12?

Regarding information in relation to the employer – it should be clarified that this requirement would not include information on the employer's covenant (this would not affect the benefits itself but would impact on the assumptions made).

Regarding legal opinions – the requirement that such information should be sought when obtaining data could be misleading. Information on legal precedents may not be available to the trustees or data holder – although the actuary may be aware of the issues. If the information is not in the possession of the trustees (who therefore may not have considered the impact) is the intention that this information can be ignored or should the actuary use the information obtained elsewhere? And does this then

impose a requirement on the actuary to add an allowance or warning regarding a legislative development which is not yet finalised (for example a court judgment pending appeal)
We agree that data should include discretionary practices.

12 Are there any other data issues which respondents believe should be covered by principles in the pensions TAS? (section 5)

No

13 Do respondents have any comments on the proposals concerning assumptions that are presented in section 6, especially those in paragraphs 6.3, 6.8, 6.12, 6.14, 6.16, 6.19, 6.33, 6.35, 6.36, 6.42, 6.46, 6.53, 6.61 and 6.63?

We make the following comments:

6.12-We do not agree that events after the effective date of the calculations should affect the choice of assumptions (although they may affect the advice). The requirement for assumptions to reflect post-effective date events could be misleading, unworkable and lead to extra costs.

6.19 – We agree that margins should be transparent, but it is important for the level of prudence to be set overall, and this might be achieved more clearly if larger margins are built into selected assumptions (to reflect the overall risks) rather than smaller margins included in each element of the basis. Prudence depends both on the assumptions used and the corresponding underlying investment strategy being adopted. In addition, a best estimate rate used as a starter for determining prudent margins would depend on the investment strategy - the proposed principles do not cover this point sufficiently.

Under 6.42 we believe it would be helpful for the TAS to encourage a practice of quoting life expectancy figures.

We do not agree with the proposal to separate running costs into those relating to past and future service – it may be difficult to do other than an arbitrary split and does not fit into the legislative requirements.

6.61 – as proxy annuity rate calculations often use swap yields, this should be acknowledged - and it should be made absolutely clear that relevant bond yields also includes gilts. Should the assumptions be ‘determined taking account of annuity rates.. OR.. relevant bond yields’?

6.63 - the requirement to justify cash equivalent assumptions in relation to funding assumptions was in the original draft Regulator’s guidance on cetvs. The fact that it was toned down in the final guidance means that TAS P would go farther than the Regulator felt necessary.

In general, it is important for the risks to be disclosed to the users - not just taken into account.

14 Respondents are asked for their views on whether a standard comparator rate for discount rates would assist users’ understanding, and if so whether a low risk rate should be used? (paragraphs 6.28 to 6.31)

We do not agree with this requirement – it could affect or prejudice the discussions around the actual rate to be used.

15 Are there any other principles on the selection of assumptions which respondents believe should be in the pensions TAS? (section 6)

Around 6.19 it may be suitable to build in a principle stating that one way of identifying margins is by using models which look at all the assumptions in totality.

16 Do respondents have any comments on the proposals concerning modelling and calculations that are presented in section 7, especially those in paragraphs 7.6 and 7.10?

No.

17 Are there any other principles relating to models and calculations which respondents believe should be in the pensions TAS? (section 7)

No.

18 Do respondents have any comments on the proposals concerning reporting that are presented in section 8, especially those in paragraphs 8.4, 8.17, 8.18, 8.35, 8.38, 8.39 and 8.40?

Given the proposals in TAS R to simplify the reporting of valuations, we are reluctant to agree to any proposal which involves further lengthy reporting to trustees as part of the actuarial valuation. However under 8.17, in some cases quantifying the risks may be helpful although this should not be compulsory – wording such as ‘including quantifying the risk where appropriate or where information is available’ might be added here.

The current wording of 8.18 is inconsistent with 8.17 (in requiring quantification of an uncertainty which may be very difficult to assess – whereas 8.17 requires no quantification of items which might be more significant and may be easier to assess). What should the reader then do with such information? This links back to the data requirements around legislative uncertainty.

19 Do respondents agree that in Scheme Funding exercises any prudent estimate of scheme liabilities should be accompanied by a best estimate? (paragraphs 8.10 to 8.15)

No – this would influence discussions between employer and trustees unduly (in the same way as a comparator risk free rate would). In addition it is not always clear what a best estimate is. Clearly advice on assumptions should focus on a range, but this should be narrower than best estimate/risk free.

20 Do respondents agree with our conclusion that the final Scheme Funding report should include sufficient information for an informed reader to understand the financial position of the scheme, and that this is best accomplished by defining the intended users and decisions accordingly?

Do respondents agree with our conclusion that this would result in little extra work? (paragraphs 8.20 to 8.31)

We feel that the fourth option (leaving the actuary and trustees to decide the level of information in such reports) would be preferable, as different schemes will have different levels of understanding and need within the memberships.

This conclusion in 20 above is bound to lead to extra work as the material presented at earlier stages will need to be re-presented possibly in different format for member understanding.

21 Would the provision of specimen Scheme Funding reports be of value to users? (paragraph 8.32)

We see no need for this.

22 Are there any other principles on reporting which respondents believe should be in the pensions TAS? (section 8)

The terminology here may be misleading – TAS R considered aggregate reports and component reports – the pensions TAS merely refers to reports, so this should be clarified.

23 Do respondents think that actuarial comparisons in pensions should be covered in the pensions TAS or in a Specific TAS covering similar matters across all areas of actuarial work? (section 9)

We believe that these should be in the pensions TAS. We note that modifications are currently covered by GN51 which is maintained by the Institute of Actuaries rather than BAS, but we feel that the principles behind the calculations warrant discussion within the pensions standard.

24 Do respondents have any views on whether it would be of value to users of actuarial information for the BAS to maintain a glossary of actuarial terminology and if so, what it should contain? (paragraphs 10.15 to 10.17)

Yes – this should build on the present GN26 and add the various definitions being brought into the TASs.

25 Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 10?

The proposals are sensible – where the new pensions standard covered the required concepts from each of the GNs there is no need for the GNs to be retained. However see our comment on GN51 above.

26 Do respondents have any views on whether matters which could be construed as technical or ethical such as those mentioned in paragraphs 10.5, 10.13, 10.20 and 10.24 should be included in the pensions TAS?

See our comment on GN51 above. In addition we feel that all the aspects of GN16 should be covered within TAS P.

We would be pleased to discuss any of these matters in more detail.

Yours faithfully

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