

Response to Pensions TAS Consultation

Please find below a response to the pensions TAS consultation from the Defined Benefit Pensions department of Aviva.

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?*

We would agree in terms of transparency of assumptions and comprehensibility but have some reservations in terms of relevance and completeness given the comments made below and the final wording of the TAS.

2. *Do respondents agree that all Reserved Work concerning occupational pension schemes should be within the scope of the pensions TAS?*

This seems reasonable.

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?*

This seems reasonable. We would hope that the existence of the TAS will encourage users to use an actuary to undertake work (where they may have a choice over who to employ) because of the reassurance the TAS should provide about the way that the actuary will approach the task.

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

This seems reasonable. We would repeat our comments under 3. above.

5. *Do respondents agree that the areas of work described in paragraphs 4.29 to 4.33 (accounting for pension costs and investment matters) should not be within the scope of the pensions TAS?*

We would be happy to see accounting for pension costs included in a TAS for financial reporting.

A lot of investment work is not undertaken by actuaries, and we are happy for this to be excluded from the pensions TAS. However, we are confused by the comment that the BAS would 'strongly encourage' compliance with the Generic TASs for all asset liability modelling work?

6. *Should the following areas of actuarial work performed in connection with DC schemes be within the scope of the pensions TAS:*

- (a) *scheme design*
- (b) *benefit projections*
- (c) *any other work?*

We are unable to comment.

7. *Should work performed in connection with mergers and acquisitions be within the scope of the pensions TAS?*

As important, perhaps irreversible, decisions are being made it seems odd to leave this out of scope. Perhaps specific guidance could be included in relation to it.

8. *Should work for scheme sponsors on inducements to transfer be within the scope of the pensions TAS?*

We think it should as this is a potentially controversial subject.

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 within the scope of the pensions TAS?*

Advice to sponsors should be treated the same as to trustees.

10. *Is there any other work which is not mentioned above that should be within the scope of the pensions TAS?*

We cannot think of any.

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 (these are the 3 principles)?*

We foresee potential difficulties with point 5.10 and seeking relevant legal opinions. It is not the actuary's area of expertise to ascertain whether there are any legal uncertainties.

12. *Are there any other data issues which respondents believe should be covered by principles in the pensions TAS?*

Not that we are aware of.

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 (these are basically the principles quoted plus having no benchmarks)?*

Further explanation needed around point 6.6.

Point 6.12 may be difficult to apply as it could be potentially contradictory (i.e. using assumptions at one date and market values at another) and is also potentially at odds with legislation. Perhaps it could be restricted to the need to refer to material events since the valuation date.

Point 6.14 should reflect the difficulty/appropriateness in analysing certain experience for small schemes.

Point 6.35 will be difficult to quantify without further guidance.

Point 6.42 will be impractical for some smaller schemes.

Point 6.53 may be potentially confusing rather than adding to users understanding.

Point 6.63 should be re-expressed to remove the reference to 'justifiable' and replaced with an explanation of the difference.

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)*

Points 6.30 and 6.31 could be contradictory. We are also not clear what benefit this comparison will give to the user of the information as this comparator may be of no direct relevance to any of the calculations being undertaken.

15. *Are there any other principles on the selection of assumptions which respondents believe should be in the pensions TAS?*

Not that we can think of.

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 (the 2 principles)?*

They seem reasonable.

17. *Are there any other principles relating to models and calculations which respondents believe should be in the pensions TAS?*

Not that we are aware of.

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 (the principles stated)?*

The extent to which there is uncertainty around benefit definitions may not be known without legal investigation. This means if the actuary has made no comment or extra allowance the user may assume that there is no risk, when this may not be the case. It will also be impractical to quantify a maximum liability.

The proposed wording under 8.40 is preferred to 6.63. Although the user will need to understand that the comparison will vary over time.

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)*

Legislation requires best estimate for calculating 'minimum' cash equivalent transfer values, so in practice for many schemes this may not represent best estimate. This issue is acknowledged in 8.13.

It is a laudible aim. However, there is also perhaps some suggestion implicit in the proposal that everyone will come up with the same best estimate and this will not be the case. Users need to be aware that the best estimate may not be known, and opinions will vary between actuaries.

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 require little extra work? (paragraphs 8.20 to 8.31)?*

We would regard the report as primarily for the benefit of the trustees (and employer) as a record of events and future reference document and this should be the overriding consideration in its preparation. We would expect those members who actually request a copy would be the more informed and would not need any special consideration.

Point 8.30 'other material information' is too vague.

21. *Would the provision of specimen scheme funding reports be of value to users? (paragraph 8.32)*

We believe this would be useful.

22. *Are there any other principles on reporting which respondents believe should be in the pensions TAS?*

No.

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?*

We would prefer one TAS.

Under point 9.8 we believe a fixed period is not appropriate. However, some guidance for the actuary of matters to consider when specifying the period for which the certificate will be valid would be welcome.

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).*

We believe a glossary is a good idea but it needs to be in plain English as its main users would be those least experienced in pensions matters.

25. *Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TAS's described in section 10?*

Regarding GN16, what has been the outcome of discussions with DWP regarding the wording of 'broadly no less favourable'. We don't believe the format of the certificate should be left to the actuary.

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.*

We would interpret all the points as being technical rather than ethical.