

# CAPITA HARTSHEAD

Email: [baspensions@frc.org.uk](mailto:baspensions@frc.org.uk)

## **Private & Confidential**

The Director  
Board for Actuarial Standards  
54 Aldwych House  
71-92 Aldwych  
London  
WC2B 4HN

18 September 2009

Dear Sir or Madam

## **PENSIONS CONSULTATION PAPER**

### **Introduction**

Capita Hartshead is the largest third party administrator of occupational pension schemes in the UK and also act as consultants and actuaries to a significant number of schemes in all sectors. With over 30 years experience in the field of administration and specialist professional services, and 3.4 million members under management, this gives us a wealth of industry expertise. We have over 500 occupational pension scheme clients covering all types of arrangements.

In addition, our parent company Capita Group plc employs a number of pension actuaries who have transferred to the group as a result of outsourcing contracts with insurance companies. Their views have also been sought before making the submission. We have provided separate contact details for a representative of these actuaries below.

We welcome the opportunity to respond to the consultation on the TAS for Pensions. Our comments on the provisions set out within the consultation have been included below.

### **Responses to consultation questions**

Question 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?

**In our view, the wording should be amended to the effect that the purpose of the TAS includes providing guidance to actuaries in supporting the trustees and the other parties referred to in the paragraph.**

**With reference to paragraph 2.3(a), we consider that it would be helpful to refer here to the information being sufficient and proportionate.**

Castle House, Park Road, Banstead, Surrey, SM7 3BX  
Tel 01737357272 [www.capitahartshead.co.uk](http://www.capitahartshead.co.uk)

Capita Hartshead is a trading name of Capita Hartshead Limited is registered in England & Wales No. 02260524  
Registered office: The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Registered in England No. 05267391  
Part of The Capita Group Plc. [www.capita.co.uk](http://www.capita.co.uk)

# CAPITA HARTSHEAD

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

**Yes**

Question 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 a reasonable intention albeit that it would be preferable if the scope was made clearer than “almost always carried out by an actuary”.**

Question 4: Should the pensions TAS cover the non-Reserved work listed in paragraph 4.26?

**Yes, however there must be clarity on what is covered and what is not.**

**With reference to paragraphs 4.2 and 4.25, it should be made clear that the totality of any calculation is not within the scope of the TAS. It is only the correct application of any actuarial factors provided that should be within the scope of the TAS.**

Question 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?

**Yes.**

Question 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?

**No.**

(b) Benefit Projections?

**Yes.**

(c) Any Other Work?

**No.**

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

**No.**

# CAPITA HARTSHEAD

Question 8: Should work for scheme sponsors on inducements to transfer be in the scope of the pensions TAS?

**Guidance on this issue has been set by the Pensions Regulator. In light of this, it may be preferable to leave this issue with the Pensions Regulator to avoid any potential ambiguities that may arise if this area came within the scope of the pensions TAS.**

Question 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?

**No.**

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

**No.**

Question 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?

**Paragraph 5.10 is very open ended and would seem to require the scheme actuary to be qualified to interpret legal opinion definitively. Are actuaries really qualified to decide whether legal opinions should be sought in the first place, how to interpret such opinions and how to decide the relevance of such opinions? Who is paying for the legal opinions that are sought and what happens in situations where the trustees decline to seek such opinions?**

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

**No.**

Question 13: Do respondents have any comments on the proposals concerning assumptions, which 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?

**Paragraph 6.12 would prove unworkable in practice as all concerned would be chasing their tails over the course of an exercise. It would undermine the status of scheme valuations as point estimates. It may be appropriate to comment on any material events after the effective date of the calculations, but assumptions should generally be set by reference to market conditions at the relevant date. The second sentence must be deleted.**

**Paragraph 6.14: For smaller schemes, we believe that the guiding principle should be that any analysis of past experience would be disproportionate, rather than immaterial, that is any work would be out of proportion to any value which it would provide. It might be appropriate to consider past experience, without going as far as analysing it.**

**Paragraph 6.42: Our view is that that the second sentence should only relate to situations where such analysis is statistically significant.**

# CAPITA HARTSHEAD

**Paragraph 6.53: We suggest that this is an area which should be left to the professional judgement of actuaries.**

Question 14: Respondents are asked for their views on whether a standard comparative rate for discount rates would assist users' understanding and, if so, whether a low risk rate should be used?

**Our view is that the use of a comparator rate is not always helpful, and we would not therefore support the inclusion of the principle set out as in paragraph 6.31.**

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

**No.**

Question 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?

**This is much the same issue as commented on under question 4 above. It must be clear that the actuary is only responsible for the correct application of any instructions provided and not for all the instructions that administrators may follow, many of which may be set by their employer without any actuarial involvement.**

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

**No.**

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

**In paragraph 8.4, our view is that the responsibility for selecting assumptions in "Scheme Funding" generally rests with the trustees and there is a statutory requirement for changes to be justified by a change in legal, demographic or economic circumstances. As such, there may be an argument for this to be omitted.**

**In paragraph 8.18 the second sentence should be omitted as the "maximum liability" would not be quantifiable without considerable additional guidance in this area. The issues here are similar to the issues remarked upon under question 11 above. Actuaries are not lawyers and it is not appropriate to effectively ask them to act as such.**

**Under paragraph 8.35 there is a clear statement of who is viewed as the intended user and what decisions are intended to be taken. We suggest that it could be beneficial to revisit other principles, to see whether they could benefit from the same approach.**

**In paragraph 8.38, we would expect that there would be a clear indication of when or under what circumstances factors should be reviewed. As such, our view is that it is not necessary to make a separate reference to the robustness of the factors.**

# CAPITA HARTSHEAD

Question 19: Do respondents agree that in scheme funding exercises any prudent estimate of scheme liabilities should be accompanied by a best estimate?

**No. our view is that it is not for the actuary to provide guidance on what constitutes a best estimate where the Pensions Regulator chose not to.**

Question 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?

**The final scheme funding report should include sufficient information for an informed reader to understand the financial position of the scheme at the effective date.**

**However, we do not believe that scheme members should be included as ‘users’ (as defined by TAS R) of the report for the following reasons:**

- **this appears to be a unilateral extension of the actuary’s legal obligation to parties who do not employ him/her.**
- **only giving a member a copy of the final report would seem likely to be contrary to the requirements of TAS R if members are ‘users’.**

Question 21: Would the provision of specimen funding reports be of value to users?

**Yes.**

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

**No.**

Question 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 have no strong views on this question.**

Question 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 should it contain?

**We feel that this would be beneficial.**

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

**In the event that a Guidance Note contains material such as the GN 16 certificate (for example) which is not set out elsewhere then the format will need to be specified somewhere if it is not to be included in a BAS standard.**

# CAPITA HARTSHEAD

Question 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 suggest that, certainly at this stage, only matters which are clearly technical should be included in the pensions TAS.**

## **General Comments**

If you wish to discuss these comments further, please do not hesitate to contact

For Capita Hartshead:

Jonathan Isted on 0207 620 8073 or at [jonathan.isted@capita.co.uk](mailto:jonathan.isted@capita.co.uk).

For Capita Life and Pensions:

Ray Westwood on 0117 989 3200 or at [ray.westwood@axa-sunlife.co.uk](mailto:ray.westwood@axa-sunlife.co.uk).

Yours sincerely

**Jonathan Isted**  
**Actuary**