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Prepared for: Board for Actuarial
Standards
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Board for Actuarial Standards Pensions: Consultation Paper

Purpose

This paper sets out Hewitt's view on the Consultation Paper regarding the contents of the Pensions Technical Actuarial Standard (TAS) issued by BAS.

Our answers to the specific questions posed in the consultation document are set out in the Appendix to this document. We have highlighted the key issues below.

Comments on issues highlighted by the Chairman of BAS

Margin in discount rate

We are supportive of BAS' views that users of actuarial information would benefit from understanding how the discount rate adopted for a particular calculation compares with the yields on low risk assets such as gilts or swaps.

Compulsory disclosure of best estimates in Scheme Funding exercises

Some of our clients would value the disclosure of a best estimate liability value in Scheme Funding exercises; others would not. We believe that the Pensions TAS should require the actuary to discuss the calculation of a best estimate liability value with their client, but if the client does not want the actuary to calculate it, there should be no obligation on the actuary to do so. Further details are set out in our response to question 19 as set out in the Appendix.

Content of Scheme Funding report

We are comfortable with most of BAS' proposals for the content of the Scheme Funding report produced at the end of the valuation process. However, we do not agree with the logic for the proposals. In particular, we are strongly of the view that scheme members should not be categorised as intended users of the Scheme Funding report. Further details are set out in our response to question 20 as set out in the Appendix.

Other key issues

Scope of Pensions TAS

We believe that the scope of the Pensions TAS should be restricted to cover specified major items of work, such as advising on scheme funding valuations.

Furthermore, we note that BAS' Scope and Authority document permits a TAS to define materiality differently than the default definition contained in the Scope and Authority document. In the event that the scope of the Pensions TAS is not restricted, we believe that, in order to comply with the

proportionality requirement, materiality should be defined in the Pensions TAS in such a way as to cover only advice that has a material impact on the financial position of the scheme. Further details are set out in our responses to questions 2 to 10 as set out in the Appendix.

We note that 4.19 of the Conceptual Framework commits BAS to produce an Impact Assessment before extending any TAS to non-Required Work. We look forward to seeing the Impact Assessment in relation to the proposals in the consultation paper to extend the Pensions TAS to a number of areas of non-Required Work.

Specimen Scheme Funding reports

We believe that BAS should produce one or more specimen Scheme Funding reports in order to demonstrate that compliance with their proposals is possible without greatly adding to the costs and complexities of funding valuations (bearing in mind that increased costs are likely to be met by the users of the reports).

Other specimen reports

We also believe that BAS should produce specimen reports for all other pensions work that BAS eventually decide should be covered by the Pensions TAS. This would demonstrate that compliance with their proposals is possible without greatly adding to the costs and complexities of the advice. We believe that this "due diligence" is the minimum required in the absence of a full cost/benefit analysis.

Sex equalisation

We agree that the treatment of uncertainty in benefits due to the potential impact of overriding legislation should be explained to trustees in the course of Scheme Funding exercises. However, we believe that introducing a requirement to indicate the maximum liability after allowing for equalisation would greatly add to costs, but would not have a significant benefit. Further details are set out in the paragraph concerning 8.18 in our response to question 18 as set out in the Appendix.

Contact

If you would like to discuss our response, please contact David Turner (on 01372 733798) or at david.turner@hewitt.com.

Appendix – Answers to specific questions posed

1. Purpose of pensions TAS

We are generally comfortable with the proposed purpose of the Pensions TAS i.e. that

- a) trustees, other members of pension scheme governing bodies, sponsors and other users of actuarial information are provided with sufficient information, including information on risk and uncertainty, to enable them to make decisions which relate to the financing or affect the benefits payable to members of the pensions scheme; and
- b) calculations which result in payments to or from the pension scheme are accurate and are carried out using methods which are fit for purpose.

Nevertheless, as we have noted in our previous responses to BAS, we remain concerned about FRC's objective that users of actuarial information can place a high degree of reliance on its ... completeness Much actuarial information should be "complete", but requiring information provided to assist with immaterial decisions to be "complete" will unjustifiably increase the costs to users of obtaining that information. We consider this issue further below in commenting on the proposed scope of the TAS.

Also, in (b) we believe that "calculations" should be replaced by "actuarial calculations". (The TAS should have no impact on, for example, the calculation of an accrued pension of $N/60 * \text{Final Pensionable Salary}$.)

2. Should all Reserved Work be in scope?

We note that "reserved work" is generally interpreted as work which must be carried out by an actuary. However, BAS has chosen to define Reserved Work as being work that is both Required Work (as defined) and reserved (in the usual sense). We believe that taking a term that is already in general usage and giving it a definition that is different from its common usage is very likely to cause confusion. For example, providing trustees with an indication of the impact on the financial position of their scheme of agreeing to the closure to the future accrual of benefits is not considered by BAS to be Reserved Work (because it is not required). However, many will think that it is. We strongly recommend that, in order to minimise confusion BAS chooses a different term to describe work that is both Required (as defined) and reserved (in the usual sense). Failing this, BAS should communicate much more effectively than it has to date the restricted definition it is applying to Reserved Work.

We believe that the scope of the Pensions TAS should be restricted to cover specified major items of work, such as advising on scheme funding valuations.

If all Reserved Work is included, the cost of advising on relatively trivial matters will increase greatly.

We note that materiality is defined in the Scope & Authority in relation to the impact on the decision under consideration. Thus, even if the decision is itself immaterial, if applying a particular requirement of a TAS could influence that decision, compliance with the requirement is obligatory. As we have noted before, there appears to be a conflict between this and the requirement for proportionality. Proportionality prohibits the carrying out of

work, and the inclusion of information in reports, which will not provide commensurate benefits to the user. However, the definition of materiality in relation to whether it could affect the decision, even where the decision itself is immaterial, means that TASs will require much work to be carried out that could be seen as not proportionate. It will not be possible for the actuary to comply with the specific requirements of the TAS (required unless immaterial) and also to comply with the requirement for proportionality.

We note further in relation to 3.5 that requiring documentation of the reasons for non-compliance with a TAS (and in particular the reason why it would not be proportionate to include in a report a piece of information that would otherwise be required for compliance with a TAS) will in many cases increase costs significantly (and these costs are likely to be met by the users of the information).

Some examples of relatively trivial areas of advice, required under scheme rules which are applicable to only a small number of members, are:

- Advice of reductions in pension where a spouse is more than 10 years younger than the member;
- Advice on surrender of member pension for additional spouse's pension;
- Late retirement increases; and
- More obscure, scheme specific rule requirements, such as advising on the expenses deduction from money purchase accounts.

We note that paragraph 23 of the Scope and Authority document allows BAS to provide a different definition of materiality in a TAS. We believe that, in order to comply with the proportionality requirement, materiality should be defined in the Pensions TAS in such a way as to cover only advice that has a material impact on the financial position of the scheme.

We also note that many scheme rules define "actuary" as a firm rather than an individual and hence BAS will need to redefine Reserved Work if it is to cover all the work that BAS intend it to cover.

3. Should Non-Reserved work be in scope?

Including work which is not reserved for actuaries within scope is likely to result in users looking to non-actuaries or former actuaries for advice on non-reserved items. There is a genuine risk that in areas like liability management, scheme design and employer advice on funding it will be easier for non-regulated people (including those who have chosen to cease to be actuaries in order to avoid the compliance burden) to advise - advice will be driven 'underground'. This is unlikely to be in clients' best interests. In general, any extension into non-reserved areas should therefore be restricted to areas in which it is very unlikely that clients would select a non-actuary (or former actuary) for the relevant work.

4. Should the non-Reserved Work listed in 4.26 be in scope?

a) Funding updates

We believe that funding updates to trustees should be in scope.

b) Funding advice to scheme sponsors

We would welcome some specific guidance for actuaries advising on

scheme funding to sponsors but we would strongly caution against making such advisers subject to the full requirements of the generic TASs. For example (although the issue is much wider than this), much of the risk information required by the Reporting TAS will be provided by the Scheme Actuary to the Trustees and will be available to the sponsor, but not provided directly by the sponsor's adviser to the sponsor and therefore not available (as the Reporting TAS is currently drafted) to form part of the "aggregate report" used by the sponsor's adviser to demonstrate compliance with the requirements of the Reporting TAS. More generally, for this as for any non-reserved work, if the sponsor is free to choose advice of limited scope from a non-actuary, it does not make sense to require advice received from an actuary to cover the full scope required by the generic TASs. In particular, we note the danger that this will encourage qualified actuaries to choose to leave their professional body, in order to be able to continue providing what users want.

c) Scheme amendments

We believe that where trustees seek actuarial advice in relation to a specific scheme amendment as part of their formal process before giving their consent to that amendment, that advice should be in scope.

However, care will be required in defining the work that is in scope so as to avoid bringing within scope all advice that is in some way related to a potential scheme amendment. For example, if the trustees ask a what if question verbally "what would be the approximate impact on future contributions if the employer suggested each of these potential amendments", it would not be appropriate to bring this advice within scope. Only if the employer does formally ask the trustees to consent to a specific amendment should the advice be within scope.

This is a more general issue. It would be appropriate for the "main" formal advice in a number of areas covered in chapter 4 to be within scope, but not for all advice in those areas to be within scope.

d) Bulk transfers

We can see some merit in the advice given to trustees as part of their formal process before giving consent to a specific bulk transfer without member consent to be in scope. However, we do not see the need for advice on other bulk transfers to be in scope. As currently drafted, it is not clear whether the intention is to include such bulk transfers. Advice that relates to bulk transfers without consent but which is not the "main" formal advice considered by the trustees as part of their formal process before giving consent to a specific bulk transfer should also not be in scope.

e) Pension scheme wind ups

We believe that some advice to trustees as part of their formal process for making specified important decisions in relation to winding up the pension scheme should be in scope. Careful consideration will be required as to where to set the boundaries. For example, it would be inconsistent with BAS's proposal in paragraph 4.33 for advice given by an actuary on an appropriate investment strategy during the winding up period or on the choice of insurer etc to be treated as in scope. Similar advice is commonly given by non-actuaries. Further, trustees continue to make many decisions during the winding up process for which the advice should remain out of scope as it would be if made for a continuing scheme. Also, advice about winding up in general (eg a verbal question from a new trustee about what winding up means or involves) should remain out of

scope.

f) Individual calculations and factors

We believe that work in relation to individual calculations and factors should only be in scope where the liabilities are material in relation to the fees involved in relation to the advice. For example, it would not make sense for onerous requirements to apply in relation to late retirement calculations for schemes which only have one late retirement case every few years. It will also again be important that only advice leading to the main periodic decision by trustees to change the assumptions to be used to generate factors or to agree new factor tables are within scope, and not all work concerning actuarial factors (as specified in paragraph 4.24). For example a verbal query as to why the early retirement pension calculated now is different from that in a projection provided a few years ago should not be within scope. Neither should a verbal question from the chairman of trustees as to whether eg discount rates have changed so much as to justify undertaking a review of the factors (although the subsequent review, which might lead to a change in the factors, would be). It will be important to clarify whether advice to employers is also within scope where the employer has sole or joint power to determine factors (paragraph 4.44 suggests that changes affecting the benefits of members must be approved by the trustees, but this is clearly not true if the employer has sole power). It will also be important to clarify whether/how advice already given to the trustees can be reflected in any required aggregate report relating to advice to the employer in connection with jointly determined factors.

5. Should work described in 4.29 to 4.33 be out of scope?

We agree that work on accounting for pension costs and investment should be out of scope. The same arguments for treating general investment work as out of scope apply equally to work on asset liability modelling – which is commonly performed by non-actuaries.

6. Should certain DC work be in scope?

Much of the advice in relation to DC arrangements is carried out by non-actuaries. There would be an unfair compliance burden on actuaries if certain DC advice were included in scope.

7. Should M&A work be in scope?

We agree that it is important that company merger and acquisition decision makers are aware of shortcomings in the information that they use. However, this is a far cry from imposing the requirements of the Pensions TAS on such advice. As for certain other areas, it is important not to impose additional compliance burdens on actuaries if they are competing for work with non-actuaries.

Similar comments apply to advice to private sector contractors bidding for public sector contracts and advice to public bodies outsourcing these contracts, where these involve a transfer of staff

8. Should transfer inducement work be in scope?

In common with our stance on other advice to employers, we do not believe it appropriate for work for employers on transfer inducements to be in scope.

9. Should other work for scheme sponsors be in scope?

We believe that it is sufficient for advice to trustees on matters such as annuity purchase and scheme amendments to be in scope. Consequently, advice to employers on those matters should not be in scope.

We note that BAS do not intend to include advice to trustees on investment within scope. We do not believe that advice to employers on investment should be in scope either.

10. Should any other work be in scope?

We have not identified any other work which we believe should be in scope.

11. Comments concerning certain data items

We agree that "data sought should include information from the scheme sponsor about matters affecting benefits payable to members over which it has influence or control".

We believe that data sought should include any relevant legal opinions on the calculation of benefits. This should not be restricted to legal opinions on the impact of overriding legislation.

We agree that "the data sought should include information about any practice of granting discretionary benefits, its history and any policy regarding the exercise of discretion".

12. Other data issues

We have not identified any other data issues which we believe should be in scope.

13. Comments on assumptions

Our comments on the proposals concerning assumptions are as follows:

- 6.3 - We agree that it would not be appropriate for BAS to set benchmarks for assumptions.
- 6.8 - We agree that the selection of assumptions should take account of the purpose of the calculations for which they will be used.
- 6.12 - We do not agree that the selection of assumptions should always "also take account of any material events which are known to have occurred after the effective date of the calculations". For example, the Scheme Funding legislation requires that Technical Provisions reflect conditions as at the effective date of the valuation. We do not believe it appropriate to adjust Technical Provisions to reflect a post valuation effective date rise or fall in asset values, although post valuation experience may be reflected in the recovery plan. Reflecting events which are known to have occurred after the calculation date would be completely inappropriate (and not compliant with legislation) for many calculations, such as the annual Actuarial Reports, or cash equivalent transfer calculations.
- 6.14 – We suggest amending the proposed principle to say "**Any recent relevant statistically significant** experience of the pension scheme should be analysed and compared with the selected demographic and salary increase assumptions".
- 6.16 – We agree that the selection of assumptions should take account of information from the sponsor on matters over which it has influence

or control.

- 6.19 – We have two concerns regarding the proposed principle that "No adjustment should be made to any assumption to compensate for a shortcoming in another assumption". Firstly, the actuary normally does not have the power to set the assumptions and the TAS cannot impose requirements on the trustees. Secondly, "shortcoming" is ambiguous. Where the trustees are uncertain about one assumption (but have picked a best estimate), we believe that this should be reflected in how they choose other assumptions.
- 6.33 – We agree in principle that "If a discount rate is related to the future returns on scheme assets its selection should take into account the trustees' investment strategy and anticipated changes in that strategy". However, in relation to Scheme Funding valuations, the trustees and scheme sponsor are likely to have different views on the extent of and timing of changes in the strategy if they have considered this at all. More generally, the TAS applies to the actuary, and the discount rate is selected by the trustees or jointly by the trustees/employer (depending on context). The TAS must be careful not to impute to the actuary decision making powers that do not exist.
- 6.35 - We agree that "If a discount rate is related to the future returns on scheme assets its selection should take account of the risk that yields on the investment of future income will be lower than the yields currently available".
- 6.36 – We agree that "Assumptions about future rates of inflation should take account of financial indicators and publically available forecasts".
- 6.42 – Many Scheme Funding bases include a margin for prudence within the base mortality table. It would be better if the proposed principle were amended to make it clear that this is acceptable. Also, it is worth noting that base tables can be better fitted using a combination of scheme experience and mortality models that use, for example, postcodes and larger data pools than just the scheme in question.
- 6.46 – Paragraphs 5.11 and 5.12 do not acknowledge that the power to award discretionary benefits often resides with the scheme sponsor and the trustees/actuary cannot force the scheme sponsor to pre-fund for these. We therefore suggest that the proposed principle is amended as follows: "Assumptions about the award of discretionary benefits should take account of past experience and ~~information about the sponsor's or trustees' intentions which might affect the practice in future~~ **the views of the body which has the power to determine whether such benefits are awarded in future**".
- 6.53 – We agree that transparency would be improved if running costs paid by trustees are split into those in respect of accrued benefits and those in respect of future service benefits. However, the actuary does not have the power to set the assumptions and BAS cannot impose requirements on the trustees and scheme sponsor. We therefore suggest that the principle should be amended to require the actuary to discuss with their client the proposed splitting of the running costs.
- 6.61 – We agree that "The assumptions selected for any calculations relating to the position if a scheme had been discontinued or wound up should be determined taking account of possible annuity rates available

from providers, the nature of the pension scheme liabilities and the level of relevant bond yields".

- 6.63 – Whilst the Scheme Actuary has a large influence, he has no formal power over the assumptions actually selected for cash equivalent transfer values (or for that matter scheme funding). It is, therefore, not possible for the actuary to ensure that the assumptions selected are "justifiable in relation to the assumptions used for Scheme Funding". We do, however, agree that there should be consistency in the advice provided by the actuary for the two purposes and we are comfortable with the wording proposed in 8.40.

14. Standard comparator rates

We agree with the proposed principle, but suggest that the wording is refined as follows: "the relationship between the selected discount rate and a discount rate equal to the yield on appropriate low risk assets should be explained to the user".

15. Assumptions – other principles

We have not identified any other assumption setting principles which should be included.

16. Modelling and calculations

We agree that "The funding method employed in Scheme Funding exercises should be explained to trustees. This explanation should include the way future entrants and future increases to benefits have been taken into account."

We agree that "Instructions provided to another party for the calculation of benefits or other payments related to individual members should include:

- Clear descriptions of the circumstances in which the instructions apply;
- Sufficient information to enable the calculations to be performed correctly; and
- Comments on when the instructions should be reviewed."

However, we do not believe that the instructions should specify "procedures for checking the calculations". It is for the user to determine these procedures.

We question whether TAS M is the correct document to contain principles on reporting the limitations of models to users. In our view TAS R would be a more suitable document.

17. Modelling - other principles

We have not identified any other principles relating to models and calculations which we believe should be in the pensions TAS.

18. Reporting

Our comments on the proposals concerning reporting are as follows:

8.4 - We agree that the reasons for any change in the rationale underlying the selection of assumptions between two similar exercises should be explained to the users." However, the above statement is rather more general than pensions and we suggest that it is included in TAS R instead. Furthermore, the actuary generally does not have the power to determine assumptions and hence the proposed principle should refer to

"proposed change in rationale" rather than "change in rationale".

8.17 – It is not clear what is required in "an explanation of how the funding objectives adopted by the trustees have been taken into account". This statement seems to envisage that the Scheme Actuary might ignore some of the funding objectives. We are not aware of this occurring in practice. We are content with the requirement to comment on the specified key risks.

8.18 – We agree that the treatment of uncertainty in benefit definitions due to overriding legislation should be explained to trustees in the course of Scheme Funding exercises. However, we believe that introducing a requirement to indicate the maximum liability would greatly add to costs, but would not have a significant effect on understanding. For example, it would be necessary to perform some detailed calculations for any scheme which was contracted-out on a GMP basis (even those that have equalised, because the equalisation may not satisfy the sex equality requirements). In many circumstances, the actuary is unlikely to be able to identify the worst case interpretation of the relevant legislation and rules, and legal advice would be required for compliance with this requirement. The actuary is not in a position to force the entity to seek such legal advice, which may be of little or no value to the entity.

8.35 – We agree that the requirements of the reporting TAS and the pensions TAS should not apply to the Actuary's report in relation to the Section 179 valuation. However, we do not believe that "It should be assumed that the intended user of the formal report giving the results of the PPF levy calculations is the PPF". There are two problems with this:

- In practice the report is not provided to the PPF;
- The above wording appears to create a duty of care to the PPF which does not currently exist.

8.38 - We agree "When information is provided to enable trustees to set factors for individual members it should include an indication of how robust the factors are and when they should be reviewed."

8.39 – We agree "When information is provided to enable trustees to set factors for individual members it should include an indication of the financial impact of choosing different factors on the funding of the scheme, the members exercising options and the sponsor of the scheme".

8.40 – We agree "The information provided to trustees for setting assumptions for cash equivalent transfer values should include a comparison of the assumptions with those used for Scheme Funding with an explanation of the differences."

19. Disclosure of Scheme Funding best estimates

Some of our clients would value the disclosure of a best estimate liability value in Scheme Funding exercises; others would not. We believe that the Pensions TAS should require the actuary to discuss the calculation of a best estimate liability value with their client, but if the client does not want the actuary to calculate it, there should be no obligation on the actuary to do so.

BAS' intention is that trustees should understand how prudent they are being when choosing assumptions and setting contribution rates. However, for many clients simply comparing a best estimate liability value with the Technical Provisions does not significantly help the trustees in

this area. For example, a prudent liability value may be £100 million higher than a best estimate value, but there still might be a 40% probability that a reserve equal to the prudent value is insufficient to provide the benefits in full.

In addition, the Pensions Regulator has stated that when considering the degree of prudence within Technical Provisions, trustees should consider the ability of the employer to bridge the gap between the Technical Provisions and the cost of buying-out benefits with an insurance company. The Pensions Regulator has not made any statements concerning the gap between Technical Provisions and the best estimate value of liabilities.

Furthermore, behavioural economics would suggest that emphasising best estimate assumptions and present value of expected benefit payments may "anchor" trustees to an inappropriate measure in determining prudent assumptions and technical provisions. At the very least it is likely to reduce the attention paid to the shortfall of the technical provisions from the cost of buying out the benefits.

In the context of what is often a fraught negotiation with the sponsor, requiring the trustees to place on record what they (or their actuary) considers to be the best estimate assumptions is likely to strengthen the negotiating position of the sponsor. Many sponsors (and their advisors) are therefore likely to welcome such a requirement. BAS should consider the impact of its proposal carefully.

Practical problems

In addition to the above, there are a number of practical problems associated with calculating a best estimate value of liabilities. Firstly, it is important to emphasise that legislation only permits and does not require cash equivalents to be determined as best estimates. Most trustees will incorporate a degree of conservatism in determining cash equivalents to reduce the risk of being challenged and to ensure some resilience against changing conditions. This means that there is not as assumed by BAS a pre-existing best-estimate available for comparison, and a best estimate would have to be determined from scratch. A number of issues arise.

1. Whose best estimate:

- The actuary's;
- The trustees' (may not be the same as actuary's);
- As jointly agreed by trustees and sponsor?

As the prudent assumptions are jointly agreed by the trustees and sponsor, it would seem inconsistent to compare them with a best estimate that has not been similarly agreed – but there is no provision in the funding legislation for such agreement. Trustees and sponsors are likely to find it harder to agree on best estimate assumptions than on prudent assumptions.

Expected equity returns, for example, are controversial. Few actuaries or trustees (or sponsors) will be confident in a single best estimate. We note that BAS is itself unwilling to take a view on this [6.3]. It would be easier if the parties were required to agree on a range of values which could be considered as best estimates. However, this would increase the cost and complexity of valuation calculations. BAS should note that, whilst a best estimate equity return assumption is required for accounting work, it has

no impact on the value of liabilities and is therefore less important than a best estimate equity return for a Scheme Funding exercise. Furthermore, the trustees and their advisors are unlikely to accept the accounting assumption (which was determined without their input) for Scheme Funding purposes.

There are also problems in deciding a best estimate of future mortality improvements.

2. What investment policy should be assumed:

- Trustees;
- As jointly agreed by trustees and sponsor?

As the prudent assumptions are jointly agreed by the trustees and sponsor, it would seem inconsistent to compare them with a best estimate based on an investment policy that that has not been similarly agreed – but it is unlikely that there is such an agreed vision of the future. (Whilst the legislation only requires trustees to consult the sponsor on investment strategy, in practice the investment strategy is intimately bound up with discussions on funding etc.)

3. What should be compared:

- Assumptions;
- Liabilities;
- The probability of the outturn being no worse than on the prudent assumptions?

The work involved in the first and third approaches is considerably less than for the second and consequently would be less expensive and time consuming.

4. Costs

Requiring additional work will increase the cost of the exercise which would be met by the users of the actuarial information. Many clients believe that the cost of current valuations is too high; increasing the costs will not be welcomed by such clients.

20. Contents of Scheme Funding report

We note that the Generic TASs set high standards for meeting the needs of users. For example, the exposure draft of the Reporting TAS requires that:

- An aggregate report shall include sufficient information to enable its users to judge its relevance to the decisions for which they use it.
- The style, structure and contents of reports shall be suited to the skills, understanding and levels of relevant technical knowledge of their users.
- If a person responsible for a report becomes aware of any evidence of a report not being understood by any user, they shall provide clarification or correct misunderstandings.

We do not believe it is possible to comply with these requirements if scheme members are included within the category of users in relation to the Scheme Funding Report. (For example, consider the situation where a member raises a query on a Scheme Funding report. Who should be charged for providing the explanation and what should be done if they

refuse to pay?)

More generally, it is not practical for the Scheme Funding report to include sufficient information to enable scheme members to make all the decisions they might want to consider that reflect the financial position of the pension scheme. Such decisions are highly complex and individualistic in nature and the report would need to be very detailed to satisfy this requirement.

Arguably, compliance with the Reporting TAS and/or providing sufficient information to enable scheme members to make all the decisions they might want to consider that reflect the financial position of the pension scheme would only be possible if the scheme actuary was aware of the decisions the members wished to take, and the relevant circumstances of those members. This is clearly not practical.

The consultation paper suggests an assumption that scheme members are "informed readers". This could reduce the required content of the report, but the report would then be very unlikely to fulfil BAS' intended purpose of enabling members to make decisions based on the financial position of the scheme because, in our experience, very few members are "informed readers". Such an assumption would also appear not to comply with, in particular, the Reporting TAS, which requires reports to be suited to users' actual levels of understanding. Such an assumption would also not address the issue that the scheme actuary will not be aware of the decisions that individual scheme members are considering, or their individual circumstances.

For the above reasons it would be totally unacceptable for members to be in a position where the actuary owes them a direct legal duty.

We are therefore very strongly of the view that scheme members should not be categorised as intended users of the Scheme Funding Report.

Nevertheless, we agree that it would be appropriate for the Scheme Funding Report to contain information about the financial position of the scheme which might be helpful to scheme members (or their advisers) in relation to some common decisions about their membership of the scheme. In particular, we are comfortable for the report to include:

- The information required by statute;
- The trustees' funding objectives;
- A description on the impact on members' benefits had the scheme been wound up at the effective date.

However, it is very hard for Scheme Actuaries to interpret what is meant by "other material information". In particular, the Reporting TAS defines information as "material" if it might affect the (any) decision being considered by the user, which in this case BAS wants to be taken as including scheme members. Without knowing what decisions members are considering, it is impossible to comply with this. We therefore believe that BAS should specify any additional information to be provided.

It is worth noting that legislation already requires a document aimed specifically at members to update them on the funding of their scheme – the annual summary funding statement.

21. Specimen Scheme Funding reports

If BAS decide to proceed as they propose, we believe that BAS should provide one or more specimen Scheme Funding reports in order to:

- Demonstrate that their proposals can be complied with without greatly adding to the costs and complexities of funding valuations.
- Give an indication of the expected contents and level of detail required.

22. Other reporting principles

We have not identified any other principles on reporting which we believe should be in the pensions TAS.

23. Pensions actuarial comparisons

We think that it would be better if actuarial comparisons in pensions are covered in the pensions TAS. The main drivers for this are:

- The requirements can be made more specific;
- It is easier if all of the pensions requirements are included in one document.

24. Glossary of actuarial terminology

We believe that it would be helpful if BAS maintained a glossary of actuarial terminology. This will help ensure that consistent language is used in actuarial work.

25. Transition arrangements

We have no comments on the proposed transitional arrangements.

26. Technical or ethical?

We believe that BAS should work with the Actuarial Profession to ensure that matters which are currently included in Guidance Notes and could be construed as technical or ethical are covered in either the pensions TAS or a document issued by the Profession.