

BOARD FOR ACTUARIAL STANDARDS: CONSULTATION PAPER ON PENSIONS TECHNICAL ACTUARIAL STANDARD

HYMANS ROBERTSON'S RESPONSE TO THE BOARD FOR ACTUARIAL STANDARDS' CONSULTATION ON THE PENSIONS TAS.

In June 2009 the Board for Actuarial Standards (BAS) published a consultation paper on its proposed principles for the specific TAS relating to pensions. This is Hymans Robertson LLP's response to that consultation.

GENERAL COMMENTS

PRINCIPLES V PRESCRIPTION

The BAS has stated that the TASs are intended to be principles based and that actuaries should use their judgement in applying these principles. We are supportive of the provisions in the consultation paper on the pensions TAS in relation to materiality and proportionality, i.e. that

- a failure to follow one of the principles is not a departure from the standard if it does not have a material effect¹;
- the work required to comply with the standards should be proportionate to the benefit to users²; and
- those responsible for preparing actuarial information will often be required to make judgements about what is material or proportionate³.

However, the principles as proposed in the consultation paper are far more detailed than a true principles based approach would demand. We are particularly concerned at the section on assumptions which contains no fewer than 14 principles and considers each individual assumption separately. In our view, a principles based approach would have set out a number of general principles which should apply to all assumptions. We would also note that the sections on data and modelling are unnecessary; the principles of the generic TASs on data and modelling appear to us to be sufficient.

We would therefore strongly urge the BAS to reconsider its approach for the pensions TAS to ensure that it is truly principles based.

We also share concerns which have been raised regarding actuaries achieving the right balance between materiality and proportionality. The BAS's approach is for actuaries to use their judgement in getting this right. In the absence of any guidance being provided by the BAS, our concern is that this balance can only be judged with hindsight through the profession's disciplinary processes. We therefore think that actuaries are likely to err on the side of materiality rather than proportionality which could jeopardise the achievement of the BAS's objectives. **We urge the BAS to re-consider issuing guidance or providing an interpretation service on the grounds that this could substantially improve the effectiveness of the new standards.**

¹ Paragraph 3.2 of the consultation paper and paragraph 23 of the Scope and Authority -

² Paragraph 3.3 of the consultation paper

³ Paragraph 3.6 of the consultation paper

DEFINITION OF USERS

The generic TASs define users as those “whose decisions a report is intended to assist”, for example the addressees of a report, regulators and third parties for whose benefit a report is written. This is supported by the following quote from the consultation draft of TAS R in which the BAS stated:

There are some reports, such as Scheme Funding reports, that actuaries are required to produce, that are addressed to and for the use of trustees, and that are available to members. If scheme members were to be considered as users of these reports compliance with TAS R would potentially require the inclusion of more information than is required by trustees. However, the definition of “users” in TAS R does not include scheme members for these reports, as they are not addressed to scheme members or produced directly for their benefit.⁴

We cannot understand why the BAS has apparently changed its mind - for the purpose of scheme funding reports the consultation paper proposes that the pensions TAS will extend this definition to include scheme members⁵. We fundamentally disagree with this. A scheme funding report is addressed to the trustees and is written principally for their benefit. It is not written for the benefit of scheme members; it is not intended to assist scheme members in making any decisions and nor should it be.

We would urge the BAS to reconsider its proposal to deem scheme members as users of a scheme funding report. Our reasons for this are as follows:

- Scheme members are not automatic recipients of a scheme funding report and, in our experience, requests from scheme members for a copy of the report are rare. We cannot see what value it would add for funding reports to be written with *potential* readers in mind, particularly if this is to the detriment of the primary recipients.
- The suggestion that scheme members “should be assumed to be informed readers who will make informed decisions based on the financial position of the pension scheme”⁶ is, in our view, pretty farfetched. In our experience scheme members are rarely informed readers and, as noted above, we do not believe that the funding report should be written on the basis that they will be making decisions on the back of it.
- If scheme members are users, then the draft Reporting TAS’s requirement for clarification to be provided if there is evidence of a report not being understood by any user⁷ could be extremely onerous, leading to significant additional work and cost which would be of little or no benefit to the principal users of the report (i.e. the scheme trustees).
- There is already a requirement for trustees (in the private sector) to provide scheme members with a summary funding statement on an annual basis. This statement is written with scheme members in mind and hence we believe that there is no need for the scheme funding report to be written on the assumption that scheme members will use it. In our view, if there is a need for more information to be given to members then this is a matter of social policy and it is for the Government to make the amendments to the disclosure regulations.

⁴ Paragraph 3.33 of the exposure draft of TAS R issued in March 2009

⁵ Paragraph 8.30 of the consultation paper

⁶ Paragraph 8.30 of the consultation paper

⁷ Paragraph C4.4

- In the consultation on TAS M, the BAS states that it is the reporting of calculations such as transfer values *to trustees* that falls within the scope of the TASs, *not* the reporting to the end user (i.e. scheme members)⁸. Given that scheme members are much more likely make a decision on transfer value information than on scheme funding reports, it seems completely disproportionate that they should be deemed to be users of scheme funding reports but are not users for the purpose of reporting of transfer values under the TASs.

SCOPE

In our view strategic investment work is an integral part of scheme funding work since it is the combination of contributions and investment strategy which is intended to ensure there is sufficient money in the scheme to pay all the benefits due. **We are therefore strongly of the view that strategic investment advice, particularly that which is associated with scheme funding, should be included within the scope of the pensions TAS.** With scheme funding exercises increasingly reviewing both contribution and investment strategies together it makes little sense to us that only part of this exercise be covered by the TAS. Only covering half the advice in this vital area will not meet the objectives of this TAS.

Conversely, **we are of the view that scheme sponsor work should be excluded from the scope of the pensions TAS** and, where appropriate, should be the subject of a specific TAS. The principal reason for this is that the provision of actuarial information on which scheme sponsors will be making decisions is often subject to different pressures as far as timescales, level of detail required etc to work for scheme trustees. We believe that the BAS should recognise these differences and that its reliability objective would not be met by simply applying the same principles to actuarial information provided to trustees and scheme sponsors. In our view, many of the principles proposed within the consultation paper on the pensions TAS would lead to additional work and cost which would be of no benefit to sponsors. It is important for the BAS to note that it is fairly uncommon for scheme sponsors to want or commission advice as comprehensive as that needed by trustees. Whilst there does seem to be some scope for actuaries to accept work of a very limited nature (advice on one particular assumption, say, which is not atypical when advising pension scheme sponsors) it is far from clear that such work could be done as efficiently as at present under the proposed pensions TAS.

APPLICATION TO THE PUBLIC SECTOR

Whilst the pensions TAS is intended to specifically apply to reserved work in respect of public sector schemes it appears to have been drafted from a private sector perspective. There are a number of areas where we believe the principles need to be re-thought in order for them to be appropriate for the public sector, some of which we have noted in our specific comments below. We would also point out that the reference to the LGPS legislation in the appendix is out-of-date and is in respect of England and Wales only; there is corresponding legislation in Scotland and in Northern Ireland which is similar but not identical to that for the English and Welsh LGPS.

We would urge the BAS to ensure the draft pensions TAS is thoroughly reviewed by actuaries working in public sector pensions before it is circulated for consultation.

SPECIFIC COMMENTS AND RESPONSE TO CONSULTATION QUESTIONS

- Q. 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 are supportive of the proposed purpose of the pensions TAS. However, we are unconvinced that the proposed principles will meet the reliability objective. In particular, we do not believe that the

⁸ Paragraph 2.14 of the May 2009 consultation paper

proposed principles will ensure that sufficient information on risk and uncertainty will be provided in relation to scheme funding.

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

Where work is required to be carried out by actuaries by legislation, then we believe that this should be covered. However, when a piece of work becomes 'reserved' through a legal document this may mean that work carried out by an actuary for scheme A is covered by the standards but identical work for scheme B, which is not reserved work, is not. It is unclear to us how this meets the reliability objective.

- Q. 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?*

We generally agree with this in terms of advice to pension scheme trustees and their counterparts in the public sector. In particular, the TAS should cover actuaries involved in giving key strategic investment advice (though not advice on implementation issues such as manager selection). We do not believe that the TAS should cover advice to pension scheme sponsors for the reason outlined above.

It should be noted that the proposals could result in materially more work being required in individual calculations, (such as calculating transfer values) where an actuary is involved. We would also argue that the majority of this work is not carried out by actuaries; in most cases individual calculations are carried out by scheme administrators. As such, we believe that there are grounds for restricting the extent to which the TAS covers such work. We would urge the BAS to reflect on this – in our view the proposed principles could result in additional work and costs where an actuary is involved in the calculations, for no benefit to trustees or members.

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

As noted in our general comments above, we believe that the proposed principles, particularly those relating to assumptions, are too detailed and too specific. We would be even more concerned at the level of detail if funding work carried out for sponsors is included within the scope of the TAS, as proposed. In many cases the advice given to scheme sponsors will be fairly limited, e.g. providing an opinion on a specific assumption. This fundamental difference in the level of information required must be considered by the BAS before it confirms that the non-Reserved Work listed in paragraph 4.26 is to be within the scope of the Pensions TAS.

Further, we do not see the logic in including advice to trustees on benefit changes within the scope of the TAS; work in this area is usually for scheme sponsors. As noted above we do not believe it appropriate to include advice to scheme sponsors in this TAS.

Whilst there is some specific actuarial advice at the beginning of a scheme wind up (including s75 debt certification which is reserved work) there is not generally much work thereafter which must be carried out by an actuary. In particular work in selecting an insurer is FSA regulated advice and in many cases will not be carried out by an actuary.

We are comfortable that advice relating to the generation and provision of actuarial factors should be covered by the TAS but re-iterate that work using the factors, which is generally not carried out by actuaries, should not be covered.

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

The financing of a pension scheme is dependent on both contributions paid and investment returns. These are inter-dependent and we cannot conceive how strategic investment advice, as it pertains to scheme funding, can be excluded from the scope of the TASs. As we note below in our comments on the assumptions section, illustration of the risk and uncertainty associated with the financing of a pension scheme fundamentally relies on the modelling of future financial conditions, including investment returns.

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

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

We do not support the inclusion of advice regarding scheme design, not least because this is advice to scheme sponsors but also because much of this work need not be carried out by actuaries. We would support the inclusion of benefit projections within the scope of the TAS, particularly, if this leads to a greater degree of understanding of the risk and uncertainty of benefits provided to members. However, care would need to be taken in how this would interact with TM1. In particular, given that TM1 specifies the assumptions to be used and the projections required under TM1 are rarely carried out by actuaries.

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

The consultation paper notes concerns which have already been raised regarding the time frame within which mergers and acquisitions work is typically carried out. Our preference would be for the specific requirements in relation to this type of work to be incorporated into a separate TAS which would enable the context of the work to be more easily reflected. We would also suggest that the BAS considers extending this to include work relating to public sector transfers (both to private companies and within the public sector).

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

No. Not only is this is advice to scheme sponsors, which we believe should not generally be covered, but this work is also by no means the exclusive territory of actuaries. IFAs often provide advice in this area and the level of inducement / top up to the transfer value which the sponsor offers will be driven by the "critical yield" on which IFAs base their advice to individuals. Further, the key issue with transfer value enhancements is how they are communicated to members and this is outside the remit of the work actuaries generally undertake.

Q. 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?*

No.

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

No, other than public sector transfers as noted in our response to question 7 above.

Q. 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?*

We are not convinced that the pensions TAS need incorporate any requirements relating to data which are not already covered by TAS D. In particular, TAS D provides that data requirements must be assessed whenever actuarial information is being provided.

As far as the principles proposed in the consultation document are concerned, we would make the following comments:

- Requiring information to be sought from scheme sponsors in a multi-employer scheme is in some cases (e.g. the Local Government Pension Scheme) unlikely to be practical or beneficial.

- The reference to seek data on “any relevant legal opinions” concerns us and could be extremely onerous in practice. For example on equalisation of retirement ages it could include information on all court judgements and legal opinions within those judgements. We would suggest that the principle should instead refer only to legal opinions specifically addressed to the users of actuarial information (i.e. trustees or sponsors).
- In our view information on the history and policy regarding the exercise of discretions should only be sought to the extent that it is relevant or has a material effect on the calculation. It would be helpful if this were reflected in the TAS. [Note that in the LGPS employers must have a policy relating to redundancy or efficiency early retirements. As these are not anticipated in the funding of the scheme there would be no benefit in collecting this information for funding purposes].

We note that paragraph 3.2 permits actuaries to depart from the principles on materiality grounds. However, in our view it would still be helpful for the proposed principles relating to data (if they are to be included within the pensions TAS), to reflect that data should only be sought if relevant or material to the decisions being taken.

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

No.

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

Our key concern is that the proposals are too prescriptive and will not support the objective of ensuring that sufficient information is provided to enable users to make decisions relating to the financing of, or benefits payable from, the pension scheme.

Our comments relating to the specific principles are set out below.

6.3 We agree with the sentiments expressed in 6.3. However, elsewhere in its generic standards and the pensions TAS the BAS is suggesting that when assumptions are used they are compared to either best estimate assumptions, risk free measures or both. This, in our opinion, is a form of benchmarking which is not consistent with 6.3.

6.12 It is not clear what the BAS intends by this principle. In most circumstances we do not believe that the assumptions adopted at the effective date of a calculation should be amended in light of events occurring after the effective date. In particular in scheme funding actuaries are required to use market values of assets. To use anything other than assumptions based on market conditions at the same date would be inconsistent with basic actuarial practice. Given the BAS’s objective to ensure transparency in actuarial information, we believe that this principle would be more appropriately framed as a reporting requirement, i.e. that the actuary should comment on how the results of the calculations have been affected by events since the effective date.

6.14 We do not consider that recent demographic experience should as a matter of course be analysed and used to inform the assumptions adopted. For most schemes the experience will not be sufficiently credible to have any effect on the assumptions. We believe that this principle would be more appropriately framed as a reporting requirement, i.e. that the scheme’s experience should be compared to the assumptions adopted, rather than as something used in the selection of assumptions. We also believe that the requirement to report on experience relative to the assumptions should be limited to material assumptions such as longevity and retirement experience.

6.16 This is fine in principle for schemes with a single sponsor or a small number of participating employers. But many schemes have multiple sponsors. As noted above, we do not consider that this principle is practical in schemes with a large number of employers. Further, the additional work and cost associated with this is likely to be disproportionate relative to the benefit to users (principally trustees or scheme managers).

6.19 Whilst we are supportive of the BAS's aim of making actuarial information as transparent as possible, we can envisage situations where an assumption might be adjusted to compensate for a short coming in another assumption, particularly in relation to pre-retirement demographic assumptions for smaller schemes. As a result, we would encourage the BAS to adopt a proportionate approach. We agree with the example cited by the BAS, relating to the adjustment of the discount rate to shortcomings in the longevity assumptions, and suggest that the principle be amended to relate only to shortcomings in material assumptions.

6.31 We do not agree that defining a comparator rate would have undesirable consequences as stated by the BAS in paragraph 6.30 of the consultation paper. However, in any event we do not agree that a requirement to compare the selected discount rate with a "low risk" rate will necessarily help users understand the level of risk and uncertainty. On its own the comparison of a discount rate with a gilt yield tells users little about the level of prudence in a funding plan, the level of risks the trustees are running or the consequence of failure, which are all related to the contributions and investments strategies.

A further concern is that a "low risk" rate is very subjective and liable to change – e.g. eighteen months ago the yield on AA-rated corporate bonds may have been considered reflective of a low risk rate, but for a time economic conditions fundamentally changed this. If the BAS is to include such a principle, an alternative might be to compare the discount rate to that used for the PPF valuation since this is far less subjective and must, by definition, be a low-risk rate. This would have the added advantage of avoiding the need to go into great detail about why a particular low risk rate had been chosen. The disadvantage of this approach is that it would not be relevant to public sector schemes.

6.33 It is not clear what would constitute an "anticipated change" to investment strategy. For example, many closed schemes may be working towards a fully matched strategy or buy-in/buy-out but this may be aspirational and implemented only when financial conditions permit. If the intention behind the principle is to ensure that trustees understand the effect of changing investment strategy on scheme funding (something we believe is fundamental), then perhaps the principle could be amended to require a discount rate which takes account of investment strategy to take into account any changes to strategy as envisaged by the Statement of Investment Principles or other policy document.

6.35 It is not clear to us that amending the discount rate to allow for the risk that future yields may be lower is consistent with the BAS's aim to ensure transparency of actuarial information. Further, we do not believe that amending an assumption to allow for one possible outcome is at all helpful in illustrating risk and uncertainty. An alternative would be to illustrate (deterministically) the effect of different future investment conditions (better as well as worse). In our view the best approach would be to illustrate the risk and uncertainty through stochastic modelling, which would help users better understand the likelihood of various scenarios. We would strongly urge the BAS to encourage actuaries to adopt a stochastic approach where appropriate rather than the one-dimensional deterministic approach which seems to be envisaged by the BAS in its consultation on the pensions TAS.

6.36 We are not sure why the principle refers only to publicly available forecasts and suggest that any relevant forecasts should be considered. Further, there are other factors which are material to the pension increase assumption, including the adjustment to allow for any cap or collar on increases, which the consultation paper does not mention.

6.42 We agree entirely that longevity assumptions should separate out current mortality rates and the allowance for future improvement.

6.46 As noted previously we do not believe that this is practical for schemes with a large number of employers.

6.53 It is not at all clear to us that this principle will be of any benefit to users. In practice it is likely to mean that estimated total future expenses will be artificially allocated to accrued and future service benefits, leading to additional work and cost. It is also likely to cause significant practical difficulties in multi-employer schemes such as the LGPS. We would strongly urge the BAS to drop this principle.

6.61 In our view the accuracy of the discontinuance position will depend on the circumstances of the scheme. Where annuity rates are available the actuary may wish to use these (in which case bond yields will be irrelevant). Where annuity rates are not available then the actuary may wish to adopt the PPF basis or may use other information to inform the assumptions, such as swap rates. The listing of specific factors which the actuary should take into account in a discontinuance valuation is, in our view, too prescriptive and not particularly helpful. In the spirit of a truly principles based standard the requirement should be for the actuary to take into account whatever information is considered relevant and to explain the rationale for the approach taken to the trustees. We would also point out that “solvency” is specifically referred to in the LGPS regulations and has a different meaning to that in the private sector, which it might be helpful for the BAS to consider. Finally, we assume that paragraph 6.61 is not intended to apply to cessation valuations in the public sector when an employer leaves the scheme but the scheme itself is not being wound up.

6.63 We are unconvinced of the BAS’s assertion that trustees would benefit from understanding the relationship between the funding assumptions and those used to calculate transfer values. What we believe would be more helpful would be for actuaries to explain how the level of transfer values compares to technical provisions in monetary amounts. We would suggest that the BAS reconsiders this principle.

We would also note that it is not clear what is meant by 6.64, or why the BAS does not consider that a comparison of public sector transfer values and funding liabilities would be helpful.

Q. 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)

See our response to Question 13 above.

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

In our view, the pensions TAS should include a number of broad principles which apply to the selection of assumptions in general, rather than including detailed principles on each assumption. For example, we believe that it would be sufficient for the TAS to require the actuary to consider the following in the selection of assumptions:

- the purpose of the calculations for which they will be used;
- all relevant information available at the effective date of the calculations, including financial and economic relationships and outlooks;
- whether, and if so, to what extent, account should be taken of any material events known to have occurred after the effective date;
- the past experience of the pension scheme; and
- information from the sponsor or trustees in relation to matters over which either or both parties have influence or control.

This could be supplemented by a requirement to make separate assumptions for current rates of mortality and for future changes to mortality rates and a requirement for documentation to include the actuary’s considerations and decisions made in relation to each of the considerations listed above.

We believe that this approach would meet the BAS’s objectives and prevent the pensions TAS becoming an unhelpfully prescriptive document, which we believe there is a real danger it will become, based on the consultation paper.

Q. 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?*

We are not convinced of the need to include further provisions in the pensions TAS over and above those already incorporated in TAS M and TAS R. TAS R provides that an aggregate report shall include an explanation of the methods used to achieve the calculation objective⁹. TAS M requires that the report shall include information on the material limitations of the model and how use of the model addresses the users' needs¹⁰. It is therefore not clear what additional requirements are envisaged by the principle proposed in paragraph 7.6.

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

No.

Q. 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?*

In our view this section would benefit from a focus on risk, in terms of the likelihood of particular events occurring. As the proposals stand, there is a focus on a deterministic approach to funding a pension scheme which seems to be rather a backward step. In our minds, the focus should be on the risks trustees run in their funding strategy covering both the level of contributions and the investment risk. Comments on the specific principles are set out below.

8.4 It is not obvious that this is pensions specific or how the proposed requirement differs from that set out in paragraph (5.1) of TAS R, which requires the assumptions used for a similar exercise to be compared. Further, given that it is primarily the trustees who are responsible for setting the assumptions in a scheme funding exercise, in a private sector context it is not clear what value this adds to the reporting to trustees as users of actuarial information.

8.17 Given the requirements of the Pensions Regulator, we do not believe that paragraph 8.17 will be of any benefit to private sector recipients of scheme funding information. Whilst extending the Regulator's guidance to the public sector could be of benefit to public sector scheme managers, we believe that the principle could be far more effective if it required the effect of the risks listed to be quantified in some way.

8.18 The consultation paper acknowledges that quantifying the risk associated with uncertainty of benefit definitions will be difficult or impossible to do so we cannot understand why this principle requires an indication of the maximum liability to be provided. In our view this requirement would be disproportionately onerous and lead to additional cost and work for no benefit to trustees or sponsors and we would urge the BAS to exclude it from the pensions TAS.

8.35 Whilst we can understand the rationale for this principle we have a slight concern with the BAS's suggestion that the PPF should be assumed to be a user of a report on the section 179 valuation. Actuaries provide these valuations to trustees who are then required to provide the information to the PPF; in our view the BAS should take care to ensure that any reporting obligation to the PPF does not interfere with the contractual relationship between the actuary and the trustees, with the trustees as principal users of the report.

8.38 Whilst we agree that in some cases continued use of outdated factors should be avoided if it is to the detriment of scheme members, where members are exercising an option it is more important for the member to understand the implications than it is for the trustees to be advised of the robustness of the factors. Further, it is not clear how the robustness of the factors may be determined since, as the consultation paper notes, conditions can change over time. In our view, this principle should simply require the factors to be reviewed regularly (e.g. by imposing an expiry date).

⁹ Paragraph C5.7

¹⁰ Paragraph C8.1

8.40 We do not believe that it is meaningful to make a comparison of assumptions used for funding and transfer values. Of more use would be a comparison of values, as noted in our comments on paragraph 6.63 above. We are also of the view that this may be of limited use for public sector schemes where the transfer value basis is set centrally.

Q. 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)*

We have some serious concerns about the reporting requirements as they relate to scheme funding exercises. We would also note that this section is drafted purely from a private sector perspective and will not necessarily result in a helpful outcome for managers of public sector schemes. As far as the proposal to compare the liabilities on a prudent and best estimate basis is concerned, we do not believe it will help meet the BAS's reliability objective for the following reasons:

- In many cases there will be no single "best estimate" on which to calculate a liability value, for example relating to future investment returns or longevity improvements. The choice of best estimate assumptions could materially change the apparent level of prudence in the liability figure.
- Simply comparing two liability values does not provide much in the way of useful information about the risk and uncertainty inherent in funding a defined benefit pension scheme. In our view a requirement to consider a median outcome and the variation around this would be a far more helpful way for actuarial information to be reported to users.
- We believe that a requirement to report a liability value using best estimate investment return assumption will detract from the BAS's stated aim of ensuring sufficient information is provided to users on the risk and uncertainty of scheme funding since it results in a lower liability figure the higher the level of investment risk taken without quantifying the risk of that return not being achieved.
- There is a significant risk that by making a comparison against a best estimate figure the BAS will put more onus on actuaries and trustees to justify any margins against this. It seems clear to us that this will have the effect of forcing technical provision bases closer to best estimate which we do not believe would be a desirable outcome.

Q. 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 and 8.31)*

As noted previously, we do not agree that scheme members are users of a scheme funding report. If they are to be defined as users then this could lead to considerable extra work which would be of little or no benefit to the principal users, i.e. scheme trustees. Further, we do not consider that the BAS should define what information should be included in a scheme funding report, given that this would be prescriptive and contrary to its preferred principles based approach.

In its current form the Scheme Funding report is a matter of record. It seems clear that under the proposals, much of what is included in the current GN9 compliant report could be included elsewhere as part of the advice given to trustees. As such there seems to be little or no value to be added in repeating information other than that required by legislation in the Scheme Funding report. It is important to note that in the private sector scheme members are sent summary funding statements, the contents of which are covered in the relevant legislation. It is our view, therefore, that the minimum information provided to scheme members is a matter of Government policy. Imposing additional costs on schemes through additional reporting which we do not believe would add any value is not something we support.

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

We cannot comment on whether this would be of value, but given that few trustees will be trustees of more than one pension scheme we are not convinced of the need for consistency in actuarial reports. The BAS may wish to consider canvassing the opinion of users of actuarial reports to inform its views.

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

As noted previously we believe that if the proposed principles are incorporated into the pensions TAS as currently drafted, it will result in a very detailed, prescriptive standard which will not, in our view, meet the BAS's stated aims. We also believe that there is an insufficient focus on the range of risk and uncertainty and that the BAS is in danger of missing a real opportunity to move pensions scheme funding from a compliance-based, deterministic exercise to a risk-based value added exercise for trustees and sponsors, which considers contributions and investment strategy simultaneously.

Q. 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?*

In our view actuarial comparisons such as those required on a bulk transfer should be covered in a specific TAS on business rearrangements.

Q. 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)*

A glossary may be of benefit to some actuaries but is, in our view, unlikely to be of much direct benefit to users as we are not convinced that many trustees will make use of such a glossary. It might be helpful for the BAS to seek the views of users before making a decision on whether or not to maintain a glossary of actuarial terminology.

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

From a practitioners' perspective it would be helpful if the withdrawal of the adopted GNs coincided with the coming into effect of the pensions TAS. A transitional period where some elements of the GNs remain effective may conflict with the reliability objective if it leads to confusion, particularly where this have an effect on the reporting of actuarial information to users.

Q. 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 10.34 should be included in the pensions TAS?*

We have no strong preference. However, from a practical perspective we believe that it would be more helpful for all the requirements relating to technical matters, including those which could be construed as technical or ethical, to be in one place i.e. that, on balance, our preference would be for them to be included in the pensions TAS, although we note that this could be construed as contrary to the memorandum of understanding between the Actuarial Profession and the BAS

If you have any comments on this response, please address your queries to Alison Murray, whose contact details are below.

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For and on behalf of Hymans Robertson LLP