

Louise Pryor  
Director, Board for Actuarial Standards  
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10<sup>th</sup> September 2009

Dear Louise

### **BAS Consultation Paper about the proposed Pensions Technical Actuarial Standard**

Following a meeting which Hetal Kotecha and I had with Robert Inglis and Bill Souster on 11<sup>th</sup> August, I am writing with our comments on the above-mentioned consultation paper. We are making these comments as users of actuarial services in our role as professional pension scheme trustees.

#### **General Comments**

- The Technical Standard should focus on principles and not spell out in detail exactly what the actuary is expected to do. In the recent past, some actuarial guidance has been over-prescriptive, leading to long and unhelpful reports which read as if written in box-ticking mode
- The pensions actuary must recognise who is the key end user of his report or advice (usually his client) and write/advise so that he will understand
- Although funding reports are available to pension scheme members, the key end user (and the client) is the trustee. Although an intelligent lay member should be able to understand the essence of the report, it is reasonable to recognise the greater knowledge and familiarity with the subject that a trustee is likely to have

#### **Prudence and Risk**

- It is nearly always the client's job (not the actuary's) to decide on the appropriate levels of risk and prudence. It is the actuary's job to illustrate these concepts.
- There should be greater emphasis on and illustration of the range of possible results than there has tended to be in the past. This suggests a greater use of stochastic rather than deterministic models
- It is difficult to get a feel for the degree of prudence in an actuary's report without having some indication of where "best estimate" might lie, albeit that precision may not be possible.
- Similarly the level of risk in any approach is better understood if compared against a risk-free or low risk alternative

#### **Answers to Specific Questions in the Consultation Paper**

1. Yes. But the actuary needs to focus on the key users of his report and advice, and not try to meet the requirements of all parties at once.
2. Yes
3. Yes
4. Yes, to the extent that these are areas of work nearly always undertaken by actuaries.
5. We note that it is BAS' intention for work on accounting for pension costs to be covered in a specific TAS for Financial Reporting. That is OK although we are concerned that there could be an unnecessary proliferation of TASs. As for investment modelling work, one would expect high professional standards; however, recognising that actuaries compete for work with many non-actuaries in this space, compliance with the generic TAS should suffice
6. No - rely on the generic TAS
7. As 6. But we do not believe that the tight time constraints cause a problem as such.
8. As 6

9. -
10. -
11. The proposals look as if they will end up too prescriptive. The actuary should simply be required to seek all relevant data
12. No
13. Re paragraph 6.12, whether it is appropriate to take into account post-date information when undertaking *calculations* will depend on the context. But there is likely to be reference to subsequent events in any *advice* given. Re 6.19, we think this statement goes too far, although we concede that adjusting one assumption to compensate another usually lacks clarity and transparency. We agree with 6.33 but, with regard to 6.30, we think that BAS is being too prescriptive to suggest that using the comparator to determine the discount rate is inappropriate. Para 6.42 is also overly prescriptive although on this particular point we do happen to think that the best way to consider mortality is to split it into current rates and adjustments for the future as proposed. We disagree with 6.53 - it should be up to the actuary to advise on the most appropriate way to allow for running costs. Re 6.56-57, we see no reason why each assumption should contain prudence; what is important is to have an appropriate level of prudence overall; we are not convinced that the Pensions Act 2004 or tPR guidance need constrain one's thinking on this. We agree with 6.61 and 6.63, noting (with regard to 6.63) that there is no need for the two sets of assumptions to be equal.
14. -
15. -
16. Re paragraph 7.10, we do not think the actuary should be instructing another party how to check their calculations!
17. No
18. Re paragraph 8.18, it may only be possible to give a broad indication of the maximum liability.
19. We believe that it is difficult to judge prudence without a best estimate comparator which should usually be provided (subject to the difficulties relating to precision referred to in the "Prudence and Risk" section of this letter).
20. We do not think that BAS should get involved in defining the information to be contained to assist lay readers of the report, and we think it reasonable for the actuary to cater only for well-informed lay readers.
21. No
22. -
23. -
24. We do not think BAS should maintain an extensive glossary, but concede that consistency of definition of a few key terms would probably be useful.
25. -
26. We agree with the pragmatic approach referred to in paragraph 10.3. However, we think that there is a danger in being over-prescriptive in this whole area. More should be left to the actuary's judgment.

We would be pleased to expand on any of these comments if required

Yours sincerely

Martin Miles  
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