



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

September 18, 2009

The Director  
Board for Actuarial Standards  
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Dear Sir

**Re: IAA comments on the Board for Actuarial Standards Consultation Paper on Pensions**

In response to the request for comments on the June 2009 Board for Actuarial Standards Consultation Paper on Pensions, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Pensions and Employee Benefits Committee of the IAA. If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the committee, Esko Kivisaari, or any other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Yves Guérard  
Secretary General

[Attachment](#): IAA comments

**A Commentary on the  
BAS CONSULTATION PAPER ON PENSIONS  
RELEASED BY THE BOARD FOR ACTUARIAL STANDARDS: JUNE 2009**

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-two Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

**Due Process**

These comments have been prepared by the Pensions and Employee Benefits Committee, the members of which are listed in an Appendix to this statement. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

**IAA Comments**

**General Remarks**

The IAA welcomes the opportunity to comment on the BAS Consultation on a principles based approach to a Technical Actuarial Standard (TAS), which will apply in the field of Pensions Practice. We note that the BAS has raised a number of issues to enable it to develop this Standard and that it is considering TASs for other areas of actuarial Practice, each of which will apply in addition to its TASs applicable across all fields of Actuarial Practice.

The issues raised in the consultation are core to good actuarial practice and we offer some high level comments on the principles covering the selection of actuarial assumptions.

As an opening comment, we refer to two of the key issues highlighted by the Chairman in the foreword, which considers:

- a) providing users with an explanation of the rationale for using a particular discount rate, including a comparison with a rate derived from with low risk assets, defined as gilts or swaps; and
- b) whether users would benefit from being presented with a comparison of a prudent and best estimate “value” of the liabilities in order to consider the difference and quantify the “amount of prudence”.

We believe the assumptions will crucially depend on the purpose of the assignment and the views of the “owner” of the assumptions. Consequently, in responding to the Chairman’s points, we believe the following should be considered:

- a) the TAS should address the need for the “assumption owner” to be clear and, as far as assumption setting is concerned, the user should be defined as the “assumption owner”;
- b) depending on the purpose of the assignment, the views of the owner of the assumptions may have regard to the interests of other parties<sup>1</sup>;
- c) the term “low risk” should be defined relative to the purpose of the assignment;
- d) depending on the purpose of the assignment, the gap between the discount rate and certain other key assumptions such as salary growth and price inflation may be more important to the results, and educative to the user, than just comparing two discount rates;
- e) the terms “prudence” and “best estimate” are different concepts and, depending on the purpose of the assignment, it may be misleading to present a “value” of the difference. By way of a pension’s example, prudence may take account of the sponsor’s covenant, whereas best estimate may be defined in relation to market trends, expectation of the direction of the economic cycle, etc.

Turning to the consultation itself, we support a principles-based approach to assumption setting. This leads us to wonder whether many of the identified principles within the consultation could be re-expressed in a generic TAS on assumptions, as they appear to be capable of formulation across all practice areas of actuarial expertise. The pension practice TAS could then be a mixture of sub-principles (informing the application of the generic principle for assumption setting for pensions practice) and principles considered to be purely pension specific.

Below we comment on some key principles which we consider could fall within a generic TAS on assumptions. We also highlight some areas for assumption setting which we consider to be particularly pension specific.

### Some Key Principles

- **Exercise of judgment** – We support a principles-based approach to allow judgment when setting actuarial assumptions.
- **Purpose of Assignment** – The purpose of the assignment will drive the selection of the assumptions. It should be clearly stated who “owns” the assumptions (e.g., in the UK for funding purposes, it is the trustee).
- **Value and Effective Date** – Where generic terms like “value” are used, the context must be clear. If value is to be assessed at the effective date then only information known as at that date should be used. However, if information becomes known to the actuary after the effective date, which would materially affect his or her advice, then this should be recognised by explaining the impact on the calculations.
- **Prudence and Best Estimate** – Depending on the purpose of the assignment, the assumptions are typically chosen from a reasonable range which should be explained to the owner of the assumptions. Prudence and best estimate are not absolutes therefore. Each should be determined relative to the purpose of the assignment, the views of the

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<sup>1</sup> For example, directions from Regulators, members of the Pension Scheme and recognising the Regulatory framework within the UK, the counterparty being the sponsor of the scheme.

owner of the assumptions, and the facts of the matter. Consequently, this comparison may not be appropriate depending on the purpose of the assignment. However we believe the relevance of different comparators, if linked to purpose, could be addressed within principles at practice specific level.

- **Sensitivity** – Irrespective of whether there is a comparator basis, and of any assumption-specific pension principles (see below), the actuary should show the effect of small changes in the assumptions where this has a material effect on the actuary’s advice.
- **Transparency and Reasonableness** – Each assumption should be reasonable (with no implicit adjustments) when considered independently and as a whole. Where the gap between certain assumptions is more important to the results than the individual assumptions then this should be explained, with sensitivity demonstrated, if relevant to the purpose. Margins need not be excessive if the assumptions have been appropriately chosen but may be justifiable, as long as they do not obscure any sensitivity analysis and are disclosed with appropriate explanation.
- **Experience** – Where relevant, account should be taken of financial indicators and publically available and credible forecasts. At the pension specific level, account can be taken of scheme specific credible experience and information from the sponsor on matters it controls.

And, for consideration, four examples of principles which relate to particular assumptions and which one might expect to be addressed at generic and practice specific levels are:

- **Comparison of discount rate with a “low risk rate”** – While the intent of this proposed principle is understood <sup>2</sup>, what is low risk may depend on the purpose of the assignment and the facts of the matter. This intent of this principle links to an extent with the principle below on investment. Indeed the two principles may be capable of being combined so that the connection is made.
- **Investment Risk and Return** – Where the purpose of the assignment requires consideration to be given to the future evolution of assets, the actuary should consider the impact of changes in investment strategy (including the impact of future investment or disinvestment) projected over time (e.g., adoption of a more cautious investment strategy as a pension scheme matures) and, where material, taken into account. Explanation of the impact on risk and return of different investment strategies may be required, if appropriate to purpose.
- **Mortality** – Past experience and trends (based on credible data) should be considered and, in recognition of the sensitivity principle, it should be stressed that the further out one looks, the greater the uncertainty in the projections. The impact of factors such as assumed rates of future improvements should be shown, but it is not necessary, in our view, to separately identify the impact of different components of the projection, if these components are artificial constructions of the model. Pension specific principles could reference factors to be considered when setting the mortality base assumption and particular projection assumptions.

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<sup>2</sup> For example, where the discount rate used in valuing a pension scheme’s liabilities has some regard to future returns on the scheme’s assets – as is the case for UK rules on pension funding

- **Running costs** – these should be considered and the allowance disclosed, recognising the purpose of the assignment (e.g., for a wind up valuation, costs should be on a winding up basis). The adequacy of the expense allowance should be tested against changes in circumstances and over time. For example a pension practice specific principle could look at the impact on the expense allowance of a decline in active members of a scheme. The principle should not otherwise constrain the particular treatment of these costs.

Finally, we note from the BAS' comments that their pension principles may conflict<sup>3</sup> with requirements of specific legislation from time to time and that such conflict should be disclosed. We suggest that a separate paper could be provided to advise practitioners of the work being carried out to anticipate and resolve potential conflicts, in as far as they are foreseeable.

We would be pleased to expand on our response in discussion with the BAS in due course, if this would be helpful.

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<sup>3</sup> For example, in some countries the assumptions may be fixed and consequently conflict with a number of principles may arise.

## *Appendix A*

### **Members of the IAA Pensions and Employee Benefits Committee**

Esko Kivisaari	Chairperson
Gary Ryan Hibbard	Vice-Chairperson
Yoshihiro Oyama	Vice-Chairperson
Valery Baskakov	Russian Guild of Actuaries
Ronald Bowie	Faculty of Actuaries
Philippe Demol	Association Royale des Actuaire Belges
Yasuyuki Fujii	Japanese Society of Certified Pension Actuaries
Alfred E. Gohdes	Deutsche Aktuarvereinigung e.V.
Bozenna Hinton	Institute of Actuaries of Australia
Curtis E. Huntington	American Society of Pension Professionals & Actuaries
Martin Janecek	Ceská Spolecnost Aktuárù
James Richard Kehoe	Society of Actuaries in Ireland
Sylvestre Konin	Institut des Actuaire de Côte d'Ivoire
Martin Kosztolanyi	Slovenska Spolocnost Aktuarov
Åsa Larson	Svenska Aktuarieföreningen
José Roberto Montello	Instituto Brasileiro de Atuária (IBA)
José Muriel Del Sordo	Colegio Nacional de Actuarios A.C.
Konrad Niklewicz	Association Suisse des Actuaire
Ieva Ose	Latvijas Aktuaru Asociacija
John Parks	American Academy of Actuaries
Hannu Parviainen	Suomen Aktuaariyhdistys
Irene Paterson	Faculty of Actuaries
Manuel Peraita Huerta	Instituto de Actuarios Españoles
Eduard Ponds	Het Actuarieel Genootschap
Gediminas Rackauskas	Lietuvos aktuariju draugija
Ksenija Sanjkovic	Hrvatsko Aktuarsko Drustvo
David Serr	Israel Association of Actuaries
Colin Southey	Actuarial Society of South Africa
Anne Grete Steinkjer	Den Norske Aktuarforening
K Subrahmanyam	Institute of Actuaries of India
Thomas S Terry	Conference of Consulting Actuaries
Joan Angel Vergés Guerra	Col.legi d'Actuaris de Catalunya
Jill M Wagman	Canadian Institute of Actuaries

**Full Member Associations of the IAA**

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)  
Institute of Actuaries of Australia (Australia)  
Aktuarvereinigung Österreichs (AVÖ) (Austria)  
Association Royale des Actuaire Belges (Belgique)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Bulgarian Actuarial Society (Bulgaria)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
Caribbean Actuarial Association  
Actuarial Institute of Chinese Taipei (Chinese Taipei)  
Institut des Actuaire de Côte d'Ivoire (Côte D'Ivoire)  
Hrvatsko Aktuarsko Društvo (Croatia)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárů (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuaire (France)  
Deutsche Aktuarvereinigung e.V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Islenskra Tryggingastærðfræðinga (Iceland)  
Institute of Actuaries of India (India)  
Persatuan Aktuaris Indonesia (Indonesia)  
Society of Actuaries in Ireland (Ireland)  
Israel Association of Actuaries (Israel)  
Istituto Italiano degli Attuari (Italy)  
Institute of Actuaries of Japan (Japan)  
Japanese Society of Certified Pension Actuaries (Japan)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Lietuvos Aktuariju Draugija (Lithuania)  
Persatuan Aktuari Malaysia (Malaysia)  
Colegio Nacional de Actuarios A.C. (Mexico)  
Association Marocaine des Actuaire (Morocco)  
Het Actuarieel Genootschap (Netherlands)  
New Zealand Society of Actuaries (New Zealand)  
Den Norske Aktuarforening (Norway)  
Pakistan Society of Actuaries (Pakistan)  
Actuarial Society of the Philippines (Philippines)  
Polskie Stowarzyszenie Aktuaruszy (Poland)

Instituto dos Actuários Portugueses (Portugal)  
Academia de Actuarios de Puerto Rico (Puerto Rico)  
Russian Guild of Actuaries (Russia)  
Udruženje Aktuara Srbije (Serbia)  
Singapore Actuarial Society (Singapore)  
Slovenska Spolocnost Aktuarov (Slovakia)  
Slovensko Aktuarsko Drustvo (Slovenia)  
Actuarial Society of South Africa (South Africa)  
Col.legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaires (Switzerland)  
Society of Actuaries of Thailand (Thailand)  
Faculty of Actuaries (United Kingdom)  
Institute of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
American Society of Pension Professionals & Actuaries (United States)  
Casualty Actuarial Society (United States)  
Conference of Consulting Actuaries (United States)  
Society of Actuaries (United States)