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Ref: 0909LI001 Response to Consultation
on Pensions

Dear Sirs

Pensions: Consultation Paper

Jardine Lloyd Thompson provides consulting, actuarial and administration services to trustees and employers in relation to 1,000 or so work-based pension arrangements with assets ranging from a few thousand pounds to over £1,000m, and to individuals with regard to individual pensions. We employ approximately 750 pensions staff in the UK. This letter sets out JLT's response to the consultation.

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?*

Yes, although we do have some concerns over the definition of users and in particular the inclusion of scheme members on which we comment later.

2. *Do respondents agree that all Reserved Work concerning occupational pension schemes should be within the scope of the pensions TAS? (paragraphs 4.2 to 4.7)*

Yes.

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? (paragraph 4.11)*

No. We are more persuaded by the arguments in paragraph 4.9 i.e. that to require actuaries to comply with TAS P in relation to non-reserved work may put them at a disadvantage to other parties who could undertake the work but who are not actuaries or actuarial firms. This disadvantage may not solely be cost. It could mean that the work may not be deliverable in a sufficiently tight timescale. Equally the need for concise answers with the reasoning to follow could conflict with various TASs in particular TAS R. If in spite of feedback it is decided that TAS P should apply to non-reserved work then the phrase "almost always carried out by an actuary" needs revision in so far as more non-actuaries will be encouraged to undertake the work. One possible compromise is to amend the phrase to "almost always carried out by the Scheme Actuary".

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

In line with our answer to question 3 we do not believe it should apply. Whilst the question does not ask for differentiation in the different areas in the question we would comment that we have less concerns in it applying to a).

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

Yes

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

- a) *scheme design; (paragraph 4.35)*
- b) *benefit projections; (paragraph 4.36)*
- c) *any other work? (paragraph 4.37)*

In line with our answers to the previous questions we do not believe these areas should be within the scope of TAS P.

7. *Should work performed in connection with mergers and acquisitions be in the scope of the pensions TAS? (paragraphs 4.38 to 4.40)*

In line with our answers to the previous questions we do not believe these areas should be within the scope of TAS P.

8. *Should work for scheme sponsors on inducements to transfer be in the scope of the pensions TAS? (paragraphs 4.41 to 4.42)*

In line with our answers to the previous questions we do not believe these areas should be within the scope of TAS P.

9. *Is there any work for scheme sponsors other than work on Scheme Funding, where agreement is required and inducements to transfer, that should be in the scope of the pensions TAS? (paragraphs 4.43 to 4.44)*

In line with our answers to the previous questions we do not believe that these aspects should be within the scope of TAS P.

10. *Is there any other work which is not mentioned above that should be within the scope of pensions TAS? (section 4)*

Our answer to question 3 confirms our view that TAS P should only apply to reserved work.

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 agree with the suggested principles being included as specified in 5.7, 5.10 and 5.12.

12. *Are there any other data issues which respondents believe should be covered by principles in the pensions TAS? (section 5)*

No

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, 6.36, 6.42, 6.46, 6.53, 6.61 and 6.63?*

This is arguably the most difficult area to be covered in TAS P. Paragraph 6.3 confirms correctly in our opinion that actuaries and trustees should be left to use their judgement to select assumptions which are appropriate for the particular circumstances. Whilst it would not be wrong we believe it to be hugely undesirable for BAS to set benchmarks which would constrain the actuaries in either setting or advising on assumptions. We believe also that as a general point actuaries should be left to set assumptions by reference to low risk rates or not as they choose and on that basis we do not support the **mandatory** disclosure of best estimate rates or the relationship between discount rates and low risk comparator rates. These are matters for the trustees and the actuary to discuss.

As an example we can see that for closed schemes where accrual has ceased that setting Technical Provisions under the Scheme funding regulations as the buy out cost would be a sensible target for the trustees. They may choose to target achieving 90% of buy out cost by the end of 10 years and 100% at the end of a further 10 years at which point the scheme would be expected to wind up and secure benefits with an insurer. Schemes which are still open to future accrual may choose to merely target 80% and then maintenance thereof at this level. These are perfectly prudent courses of action and arguably give trustees a much clearer appreciation of "prudence" than the current favourite of the margin over gilts/risk free yields. Too much prescription within TAS P would tend to make use of these techniques at least difficult and arguably impossible. Unexpected changes in the financial climate would run the risk of the prescription becoming out of date and hence dangerous.

Currently of equal concern to the trustees in setting their discount rates is whether these rates are within the acceptable range of assumptions currently "allowable" by the Pensions Regulator, outside but acceptable if they can be justified, or simply unacceptable. We suspect most actuaries follow the principles of 6.3 in advising trustees, but will then caveat in terms of the Regulator's possible reaction. We consider this to be acceptable and a position which gives the fullest advice to the trustees for them to set their assumptions. We are aware of the reluctance of the Regulator to disclose his internal triggers in fear that they will become the next MFR. We would encourage BAS to press upon the Regulator the need for his fullest disclosures if the profession is to be able to fully support its clients and ultimately the Regulator also.

Turning to the specific references in the question.

6.3 Agreed

6.8 Agreed

6.12 We have great problems with this. Asset valuations as well as liability assumptions need to be consistent. We are constrained to use the asset values at the valuation date and therefore it would be inappropriate say to use

yields some months after the effective date to value the liabilities. Second by requiring the selection to take account of material events after the effective date the trustees may never be in a position to sign off a valuation owing to it being frequently updated. We believe it to be preferable not to cover these aspects in the setting of assumptions but in a more general requirement to keep the client apprised of developments.

6.14 Agreed but the wording of the final TAS needs to confirm the application of this to small schemes

6.16 Agreed

6.19 Agreed

6.33 Agreed, but of course a discount rate need not be directly related to current investments and in fact relating it to current investments may be inappropriate.

6.35 This is an interesting point particularly in comparing discount rates to risk free rates and can show the dangers of forcing disclosure of these comparators. The point is naturally accepted but at times of particularly low interest rates is it felt acceptable to allow for higher reinvestment rates?

6.36 Agreed

6.42 Agreed

6.46 Agreed

6.53 We cannot but accept the theory here. However we believe this would be a significant change for many schemes and would need some detailed analysis to justify the rates applying to accrued liabilities. Because of the need for change and the length of time from starting the valuation process to final sign off then we would encourage a late commencement date for TAS P or indeed that it be governed by the effective date of the work not the date it is delivered.

6.61 Agreed

6.63 We disagree with this principle. For instance if a scheme sets its Technical Provisions as the buy out cost there is absolutely no reason why the transfer value basis should be justifiable on this basis.

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)

As discussed in the answer to question 13 we do not support the inclusion of a standard comparator rate.

15. Are there any other principles on the selection of assumptions which respondents believe should be in the pensions TAS? (section 6)

No

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?*

No we agree with the comments and proposals.

17. *Are there any other principles relating to models and calculations which respondents believe should be in the pensions TAS? (section 7)*

No

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?*

We have no general comments on the proposals on reporting other than those covered in questions 19, 20 and 21 below.

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 strongly disagree with the requirement for all prudent estimates of scheme liabilities to be accompanied by best estimates. This does not preclude the actuary doing so if he wishes or the inclusion or not in formal reports. Particularly in view of other users having access to these reports in fact the inclusion could be positively harmful. The best estimate may cause difficulties for sponsors seeking to sell off subsidiary companies with their scheme (or part). Members whose scheme had ceased future accruals may be disgruntled if they saw that in their view the employer was including unnecessary prudence in setting his contribution rates, which if relaxed could have saved these accruals. Thirdly Trustees, sponsors and Regulators views of prudence are frequently different, for arguably justifiable reasons. The debates are already challenging and would become increasingly so as I doubt any of the three would agree what the best estimate was and the parties would become even more confused.

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 result in little extra work? (paragraphs 8.20 to 8.31)*

We agree with the principle. However the inclusion of scheme members as users is not in our opinion appropriate. A scheme member is significantly different to the trustees and the actuary would have great difficulty in addressing them in terms of materiality and understanding particularly given that he is unlikely to be able to discuss any aspects with more than a few. Yes they may have access via the disclosure regulations but that is different to their inclusion within the definition of users.

We would add however that we believe it is important that members should have access to full information on the funding position and policies etc. Our answer should not therefore be interpreted as suggesting that advice should not be made available to members.

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

We believe that the provision of specimen reports would be valuable and help actuaries to appreciate BAS's thinking behind some of the issues. The specimen reports should however be just that and not be prescriptive.

22. *Are there any other principles on reporting which respondents believe should be in the pensions TAS? (section 8)*

No

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? (section 9)*

Where comparisons are required by Statute or Regulation then we believe it is appropriate to consider its inclusion in the appropriate TAS, e.g. TAS P. We do not however support a separate TAS addressing all these aspects across all actuarial areas as the principles never mind the detail may be fundamentally different.

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)*

We believe it would be helpful along the same lines as the current GN26.

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

No

26. *Do respondents have any views on whether matters which could be construed as technical or ethical such as those mentioned in paragraphs 10.5, 10.13, 10.20 and 10.24 should be included in the pensions TAS?*

We would support brevity in the final TAS much as has recently been proposed in TAS D and TAS M. Nevertheless matters such as this could usefully be covered in an appendix.

We have one final comment and that is in relation to the definition of materiality and which we believe needs consistently to be reflected in all TASs. We believe "could influence" should be replaced by "could reasonably be expected to influence".

We thank you for giving an opportunity to comment as well as, in advance, for the consideration of our comments. I would be more than happy to discuss any of the points in more detail (my contact details are set out above).

Yours sincerely



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