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Date: 18 September 2009



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The Director
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Dear Sir

Pensions: Consultation Paper

This response to the consultation draft is on behalf of the Scheme Actuaries of Legal & General.

In view of the number of questions, we have not provided comment or justification where we agree with the suggestions put forward by BAS but have given more detail where we either have concerns or disagree.

1. Agree with 2.3a).

We are less certain that 2.3b) is appropriate, though that depends on precisely what accurate means here. Scheme Funding is an imprecise science and employer contributions into the scheme are based on assumptions about the future and can be corrected at a later date. Payments under M&A agreements will often be calculated by two separate actuaries and then there will be some negotiation. The final amount will not necessarily be the accurate figure as calculated by either of the actuaries. Also transfers out of a scheme are a voluntary option and it can be argued that there is no need for absolute accuracy when, for instance, calculating the value of death in deferment benefits.

Thus when determining how figures should be arrived at the process may involve a certain amount of approximation or pragmatism. However, once the formula has been agreed, we agree that this should be applied accurately. Application of the formula is more often an administrative function than an actuarial one and therefore outside of the scope of this TAS.

2. Agreed.

3. Agreed.

4. The term "Actuarial factors" needs to be better defined. Whilst it is true that schemes use factors as described for early and late retirement as well as commutation, it is rarely the case that the actuary has determined these factors. More often the actuary has made recommendations but there are many cases where the only actuarial input is to comment on the effects of implementing the proposed factors, and on some occasions no actuarial input at all until after the event.

We agree that factors determined or recommended by the actuary should be in scope. However we do not feel that all calculations using these factors should be in scope. These calculations are normally carried out by administrators and the accuracy or otherwise of these calculations is a matter for them and the Trustees to satisfy themselves on rather than BAS.

5. Agreed.
6.
 - a) Should include.
 - b) Should exclude.
 - c) Have no comment about other work which could be brought into scope.
7. Mergers and Acquisition work should be included.
8. We would agree that the information given to employers regarding inducements to transfer should be in scope. Advice to members is not specifically mentioned and we think should not be included.
9. It is not necessarily the case that all changes affecting the benefits of members must be approved by Trustees. The examples of work for scheme sponsors given do affect the future security of members' benefits and therefore should be in scope.
10. Accounting - there is merit in having all pension related TAS in one place, however we do not feel that having these in a separate TAS would be unworkable.

Investment - agreed.

11. We feel that data supplied by the sponsor should be sought but not accepted without challenge.

Regarding cases where there is legal uncertainty, we feel that it would be preferable to take instructions from the Trustees as is currently required by GN9 (3.2.4) rather than interpret legal opinion. It is certainly the case that the inclusion of generic legal opinion may help Trustees decide the materiality of the matter but it would not be appropriate for the actuary to try to establish specific legal opinion with the extra costs that this would incur without the agreement of the Trustees.

12. There is also the matter of legislation which is not overriding such as Preservation legislation. It may be that data should be sought to clarify whether changes in scheme benefits have been made in these cases.

13. 6.3 Agreed.

6.6 7.7 states that TAS M will apply to all calculations relating to individual members carried out by actuaries so it is difficult to see what pensions work will involve assumptions but not models.

- 6.8 Agreed.

6.12 It is certainly appropriate to comment on material events after the effective date but we do not feel that the choice of assumptions at the effective date should necessarily take account of such events. In the context of an SSF valuation carried out over a 15 month period this suggestion would be unworkable as the assumptions at the effective date would constantly change.

6.14 Past experience is not necessarily a guide to the future. For example salary increases are more closely related to inflation than past experience. It does not seem appropriate or in the client's best interests to carry out an analysis that is known to be immaterial.

6.16 Certainly there should be consultation with the sponsor but it is not necessarily the case that the information should be used without adjustment.

6.19 We have some concerns with this. For instance, if there are concerns over the completeness of death in deferment benefits, it may be appropriate to assume survival. This is an example of an assumption being adjusted to compensate for a shortcoming in data.

6.21 Another significant assumption is the probability of payment.

6.23 Legally can be either investment strategy and / or market yields on government or other high quality bonds.

6.28 We would be interested to hear what other ways were considered, especially as in 6.30 you indicate that the use of a comparator is undesirable.

6.31 We agree with 6.30 that the use of a comparator is undesirable, as whichever one is chosen will not always be appropriate. It is not easy to define a “low risk rate” with many options available as was illustrated in Andrew Smith’s interesting webinar in March this year.

6.33 Agreed.

6.35 We would suggest “may” rather than “will”. Also we would suggest that the actuary could also consider the possibility that yields could be higher, depending on the purpose.

6.36 We would suggest “or” rather than “and” as we feel that “and” is too restrictive.

6.42 We do not see that it is necessary to have these two separate, although that is the way the majority work currently. It is very hard to estimate current mortality rates for all but the largest pension schemes.

6.46 Information about future practice is an indication only. Discretionary increases are just that, and therefore subject to change. Legally, the discretion cannot be fettered.

6.53 It is not clear why this is necessary. Especially for active members of schemes, it will be hard to separate the cost of future accrual from that of accrued benefits. For example, a change in salary will be processed once but will affect future and accrued benefits. It will be an extra and, in our view, unnecessary expense to split costs in this way.

6.61 It would be possible to use the PPF basis. The stated aim of this basis is to estimate costs of buy out and as it is kept under review it remains up to date.

6.63 The Trustees select the assumptions not the actuary. The actuary should justify the difference between the recommended assumptions and those used for scheme funding.

14. No, we don’t feel that there is a standard comparator rate that will work in all situations. Also we agree with the concerns stated that there is a danger that the comparator rate will be taken to be a suggested rate. There are also problems with determining a specific low risk rate.

15. No we cannot think of any other necessary principles.

16. 7.6 Agreed. This is in line with current practice GN9 3.4.6.

7.10 Agreed.

7.12 The last statement is not necessarily true. Our data is picked up directly from the administrator's data thus accurate calculations are normally easier to produce than roll forward ones and at a lower cost. Roll forwards can be considered but are not necessarily the better option for the client.

17. No.

18. 8.4 For SSF funding, Trustees choose the assumptions not the actuary. It is not appropriate for us to explain their rationale to them.

8.17 We do not feel that it is necessary or appropriate to include the Pensions Regulator's guidance here.

8.18 We feel that actuaries should raise the issue with Trustees but, having informed them of the risk, it is up to them to decide what information they require from us to make their decisions. It can be difficult to identify all potential areas of legal uncertainty and a 'worst case' possible interpretation.

8.35 Agreed.

8.37 The choice of some factors is actually with the Trustees on the advice of the actuary. Are these covered here? It is not always necessary to review factors - they may be part of benefit design. Stability is often helpful for members planning their retirements and change is not always appreciated. An outdated factor is not necessarily to the detriment of members. They have the choice of taking the option or not and it will depend on an individual's circumstances whether the option is valuable or not. This is true however often the factors are reviewed.

8.38 "How robust the factors are" is unclear. It should be sufficient to indicate when factors should be reviewed.

8.39 We agree with the sentiment of this. However, changing factors is likely to change the proportion of members exercising the option so that the financial impact can be difficult to assess with any confidence.

8.40 Agreed.

19. 8.11 There can be differences caused by different effective dates of setting the assumptions. Although the legislation requires the use of best estimates and Trustees have used their best endeavours to set a best estimate basis for transfer values it may be inappropriate to compare these two bases. Also the CETV basis excludes the allowance of options which can affect the results of a comparison.

8.14 Level of prudence is not a measurable figure. It is still difficult to determine a best estimate basis, notwithstanding the fact that that is now required. It may be appropriate to explain differences between the most material assumptions but to require best estimates for all assumptions is unnecessary. Giving a best estimate of each parameter to the trustees would provide the employer with a bargaining tool for agreeing the funding assumptions, and therefore the actuary would presumably supply the best estimates in draft form first and this could double the number of assumptions that the trustees would have to make a decision on, with the associated increase in cost and delay.

20. Options 3 and 4 have merit. It may be that BAS defines what information is normally included but that there is the option to disclose less for small schemes where they feel that the exclusions will not hamper members' understanding of the issues. We agree that this would involve little extra work; in fact it may result in less work.
21. We are against the idea of specimen reports, as they will then become the standard.
22. No.
23. If there is a comparison of pensions benefits then this should be included in the Pensions TAS.
24. It would be useful for a glossary to be maintained and the obvious place would seem to be with the actuarial profession rather than with BAS. The professional bodies have a Pension Practice Executive Committee made up principally of practicing actuaries who will be able to keep up with new terminology.
25. No issues with proposed transition.
26. No issues with all these being included as part of the TAS.

I hope that these comments prove useful in your continued consideration of these matters.

Yours faithfully

Sue Hall
Fellow of the Institute of Actuaries