



18 September 2009

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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Subject: Consultation paper: Pensions

Dear Sir

Mercer Limited is a global leader for HR and related financial advice and services. In the UK, our client base includes employers and trustees providing occupational pension schemes to employees in all sectors of industry; we provide pensions advice and services to companies in the FTSE100 but we also have a large proportion of clients that are employers classed as "Small to Medium sized Enterprises", or trustees of pension schemes with sponsoring employers in this class.

We welcome the opportunity to respond to the consultation paper for the pensions TAS published by the Board for Actuarial Standards (BAS).

As our business involves advising companies and trustees on pension arrangements, we will comment from this perspective.

The appendix to this letter sets out our answers to the questions asked in the document.

We would be happy to meet with you to discuss any of the points raised or answer any questions you have on our response.

Yours faithfully

[By email]

Alison Pollock





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Appendix

Consultation paper: pensions – Section 11 – invitation to comment

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 have some very fundamental concerns with the wording of 2.3, some of which underpin later comments below.

We understand the importance of the Reliability Objective in framing the purpose of the pension TAS. The Reliability Objective refers to “the users for whom a piece of actuarial information was created”.

2.3 does not reflect the “for whom the work was created” aspect and hence as drafted “users” is too widely drawn.

2.3 a) suggests these (wide range of) users are “provided with sufficient information...”. Again this is very wide in scope as drafted. We have concerns about this being used to drive provision of information to parties beyond those for whom the work was created. A wide range of users also brings practical difficulties in assessing what is “sufficient” information. The amount of information which is sufficient and the mode of its delivery will vary depending on the audience. Including extra information or modifying the language used to accommodate a less technically competent user will increase costs and potentially reduce the usefulness to the users for whom the work was prepared (and who have paid for it). In attempting to make a report accessible to all potential users, there is a risk that information key to the commissioning entity will be obscured.

The reference to decisions is also wide in scope. It is not possible to predict all decisions that might be taken by users (which include members) and hence compliance with this aspect of the TAS is impractical.

The reliability objective is more likely to be achieved if actuaries are required to make clear to whom the report is addressed and able to write the report to enable the addressee to make decisions. The public interest requirement in the Actuaries’ Code means that we cannot ignore the other interested parties that might use a report for



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information purposes, but a technical standard should not require us to attempt to address all their multiple needs.

2.3 b) suggests a policing role for the actuary over some work which is properly delegated by (for example) trustees to their administrator. It is reasonable (as set out in the draft TAS M) to require the actuary to specify checks and methods for calculating transfer values, for example, and to take steps to ensure that instructions are followed correctly. It is not reasonable that the pension TAS seeks to “ensure” that all scheme calculations, many of which do not require actuarial intervention or involvement, are “accurate”. This is a matter for trustees, not actuaries, in checking the standards of their chosen administrator.

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)

‘Almost always’ is a very loose term. Apart from this, we have some reservations about the higher costs that this will impose on actuaries compared with non-actuaries advising on these issues. This could deter the use of an actuary in situations where their skills are most valuable and may run counter to the BAS's reliability objective.

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

No. We believe it is reasonable to apply the TAS to areas where non-reserved work is done by a scheme actuary for scheme trustees, for example, certain funding updates, but not to the other examples given, such as investment consulting or corporate advice.

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.



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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)

No.

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

No.

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

No.

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)

No. As a matter of principle, we believe work that is not reserved work should generally be outside the scope of BAS's technical standards. We might revise our opinion if:

- There was evidence that non-application created material dis-benefit to potential users.
- Application was limited to the relevant aspects of the specific TAS (in particular, so the generic TASs are not automatically included in the application).

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

No.

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?



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The proposed principle in 5.7 is reasonable although 5.6 arguably overstates the usefulness and necessity of sponsor-influenced information, some of which when provided proves to be little better than guesswork.

The reference in 5.10 to the inclusion of “any relevant legal opinion” is too wide-ranging and not practical. Relevant in whose view? Actuaries are not qualified to make a definitive interpretation of such legal opinions. Where there is uncertainty about the impact of overriding legislation on the calculation of benefits, the role of the actuary should be to seek instruction from the trustee (or sponsor, etc) as to what benefits should be valued, not to seek to gather legal opinions and then interpret these.

5.12 is appropriate if proportionately applied.

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

No. Data issues have already been comprehensively covered in the generic TASs. In most cases we believe that the generic TASs should be well enough constructed so that the specific TASs do not need to elaborate on the principles contained.

For example, the requirement in the data TAS to assess data requirements and in the reporting TAS to convey any relevant information material to the work being undertaken seems to encompass having to seek information from the scheme sponsor to establish relevant assumptions.

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?

6.3 – we agree that it is inappropriate for the BAS to set benchmarks for assumptions. In some cases (scheme funding for many schemes) the decision rests with the trustees. In other cases it is right that the actuary applies his or her professional judgement.

6.8 – we agree with the principle, but note that it should be self evident under paragraph 2.3 of the proposed Actuaries’ Code, and so does not need repeating here.



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6.12 – we agree with the first sentence. The second sentence should be omitted as it will cause practical problems and is overly prescriptive. In some cases clients (for their own reasons) ask for actuarial calculations based on the position at a particular effective date and wish to ignore subsequent changes, or carry out a roll forward ignoring certain events. Actuaries should be free to meet the client's specific request and the second sentence imposes additional work. Similarly it potentially imposes extra requirements on the actuary to update valuation funding calculations beyond the practical easements in the legislation which enable certification without re-calculation.

There is also a practical difficulty to the suggestion: in many cases, even if the assumptions used for a liability calculation are adjusted to take into account changes in market conditions following the effective calculation date, legislation would prevent a similar adjustment being made to the asset value, so that the calculation would no longer be market consistent.

Where the effect of not updating could undermine the reliability objective, GN29 already requires the scheme actuary to discuss the decision and its consequences with the trustees. It would be more reasonable to suggest that advice following calculations should be put in the context of material events that have followed the effective calculation date and we believe this will be required under the reporting TAS, so it seems unnecessary here (para C3.10 of the ExD).

6.14 – this should be a matter for professional standards – we believe it could be covered under sections 2.2a) and 2.3. Judgement should be applied – analysis is likely to be appropriate only where the experience data is relevant, credible and likely to have a material impact on the results. The comments in 6.15 are welcome but these are not reflected in the 6.14 principle which is too prescriptive.

6.16 – again this should be left to actuarial professional standards rather than prescribing in the pension TAS.

6.19 – we agree that the practice (6.18) of adjusting the discount rate to allow for longevity improvements is not ideal as it conflates two quite different factors and hence reduces transparency. However translating this into the principle in 6.19 goes too far in our opinion. Taking scheme funding as an example, on the basis that all individual assumptions do not have to be prudent, but overall, prudence is required, it is reasonable for trustees to accept an assumption that is prudent (but not as prudent as they overall



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require) on the basis that another assumption has a significant level of prudence to compensate (or more than compensate) for this. For example, if there is more credible evidence about one assumption and little evidence on which to base another, it does not seem necessary to prohibit including a margin in the assumption about which there is more confidence, to allow for the uncertainty around the other assumption.

6.31, 6.32 – We are strongly against a requirement to have a comparator (although depending on the particular task and an actuary’s professional judgement they may choose to illustrate results using a low risk discount rate basis as an intermediate step). The exposure draft for the reporting TAS removed the proposed requirement to set ‘prudent’ assumptions against ‘best estimate’, but this appears to be putting it back. Trustees and sponsors already have information on scheme liabilities calculated using at least three different bases (scheme funding, accounting standards and solvency estimates). Imposing a fourth, that in any case will not be well defined, does not appear to add value, particularly as, in many cases (for example, commutation rates) it will not be relevant.

6.33 – “anticipated” needs clarity. There could be a firm decision to amend the strategy in the immediate future (which it is reasonable to allow for) or a more general expectation that, over time, a move to more bonds will occur (which it may not be reasonable to allow for until actually imminent/agreed). “Anticipated” should be clarified to cover “agreed/known future changes” or equivalent.

The principle should not preclude the use of a split discount rate (pre and post retirement) even if no formal intention to de-risk.

6.35 – Legislation requires the yield used for technical provisions calculation to take into account ‘anticipated investment returns’. The principle here seems to echo this, but is less clear.

Professional standards require actuaries to perform their role with competence and care, and it is common practice to attempt to determine a discount rate that reflects the duration of the liabilities being measured. If short term yields are high, but long term yields are lower then, for most calculations relating to a pension scheme, an actuary would select the longer term yield. Is this the intended effect of the principle? If the BAS intends something else, for example, to attempt to make actuaries adjust discount rates downwards unilaterally, then we would not agree.



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Re-framing the principle to use the word “returns” instead of “yields” would be better.

6.36 – This principle also seems to over-engineer what should be (and is) a professional standards requirement (competence and care). Actuaries should be left to use their professional judgement in this area and this level of prescription by the BAS is unwelcome and unnecessary. “Publicly available forecasts” is too widely drawn (for example the reputable sources such as the Bank of England appear in 6.36 but not in the principle itself). Some publicly available information is not fit/appropriate/sufficiently relevant to be taken account of.

6.42 – as above (6.36) this seems to over-engineer a professional standards requirement.

6.46 – this is reasonable as long as accounting advice for corporate sponsors remains out of scope for the Pensions TAS.

6.53 – we agree the comments in 6.49 but the resulting principle in 6.53 is disproportionate and impractical. Splitting expenses in this way is not readily possible and given their relatively small size in the context of other scheme finances (accrual/deficit costs for example) this adds a layer of complexity which will not add proportionate value. It is better to recognise the current approaches as described in 5.49 and allow professional judgement to be applied.

6.59 – while we agree that it is important for trustees and others to have an appreciation of the level of prudence in their assumptions, giving an indication of the level of prudence and explaining the meaning of terms such as prudence is far easier said than done. We note that BAS, like the Pensions Regulator and legislators, does not offer (6.58) its own attempt to tackle this. We believe that the statement in 6.59 “estimates described as prudent should be accompanied by an indication of the level of prudence involved” assumes this to be a trivial exercise, which is far from the case. Even if an indication of best estimate assumptions and the differences are included, it is hard to see this being of much value (and may even prove misleading) without probability measures and/or indicators of other risk factors such as covenant and investment. A non-trivial exercise.

6.61 – no comment.



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6.63 – the intention behind the use of “justifiable” is unclear. We would strongly object to any obligation to track from the funding basis to the CETV basis (a requirement which was dropped from the Pensions Regulator’s transfer value guidance following consultation). We have significant concerns with other aspects of this paragraph of the consultation document. The arguments for easy comparison with best estimate partially rest on the assumption that the transfer values would be based on a best estimate set of assumptions. However some assumptions may be deliberately different from best estimate because it is indeed not always straightforward to identify a best estimate assumption. So just because the legislation requires CETVs to be at least best estimate, it is not necessarily the case that the best estimate itself has been determined.

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)

6.28 – we do not think it is generally helpful for users to see a comparison of a discount rate with an arbitrary comparator rate. Knowing that the rate is say 20 basis points higher does not convey much useful meaning to most users, leaving aside the practical difficulties of defining a suitable comparator rate. A more useful measure is to illustrate the variability of the results using different discount rates, perhaps within a range believed to be appropriate based on the purpose and the actuary’s professional judgement.

6.30 – we agree with the analysis of the difficulties of defining a comparator rate.

6.31 – we strongly disagree with explaining the difference between the discount rate and the comparator rate as we do not think this adds to achieving the Reliability Objective. What is generally most useful to users is the way the output differs in relation to different assumptions. This illustration of outcomes may incorporate a comparison with a “low risk” (what ever that means) rate as this can help to quantify the estimated amount that is expected from the risk assets held, compared with a low risk policy (and which would otherwise be sought via extra contributions), but this should be a matter for professional standards and not be mandated via the TAS.

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



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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?

Regarding 7.4, we support the conclusion not to extend via further principles in the pensions TAS.

7.6 and 7.10 are acceptable, provided that by “procedures for checking the calculations” the BAS does not intend to mandate that each calculation is checked.

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?

8.4 – this should be omitted. Scheme funding assumptions for example are (almost always) the responsibility of the trustees and it is not for the actuary to try to explain to these and other users the rationale behind their own choice.

It is possible that the BAS intends that the actuary should explain why the advice on assumptions might have changed since the previous exercise, but we believe this will be covered in the reporting TAS (para C5.15 of the ExD).

8.17 – no comment.

8.18 – forming judgements on uncertainty in legislation does not seem an actuarial matter. We refer to our comments on paragraph 5.10 above. In any case, as the paragraph wording correctly accepts, an estimate of the maximum liability can be difficult or even impossible to calculate, so the second sentence of the principle should be removed. It will potentially detract from meeting the Reliability Objective as it could be too speculative.



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8.35 – We do not agree with this principle. Although the PPF will use the results of a s179 valuation, the intended user of the s179 report is the trustees. It is commissioned by the trustees and addressed to them. It does not seem appropriate for a BAS technical standard to interfere with the terms of engagement letters between actuaries and their clients. In addition, it is not clear to us how the comment in paragraph 8.36 follows from the proposed principle.

8.38 – the meaning of the word “robust” is unclear here and does not seem to add anything. We suggest altering the phrase to say “an indication of when the factors should be reviewed”.

8.39 – no comment.

8.40 – if this can be done in a proportionate way which does not extend the existing requirements under Pensions Regulator guidance on CETVS we would be content with this. The BAS standard should not try to re-introduce the comparison of CETV and funding assumptions which was removed from the final guidance following consultation.

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)

8.11 – final sentence – the logic is flawed. The CETV legislation is for a value not less than best estimate which does not in itself mean that a best estimate value has been quantified. See also our comments in response to question 13.

8.13 – we disagree with the assertion that “these difficulties are (not) insuperable” and do not agree that there would necessarily be “significant benefit to users” if best estimates were presented in the course of scheme funding exercises.

8.14 – We believe that the objections made in responses to the Modelling consultation apply equally here, and we strongly disagree with the proposed principle. It would be impractical and inappropriate, and lead to additional costs which outweigh any benefit to users in the context of scheme funding exercises, not least because there is no unique “best estimate”. Our reservations apply to both parts of the principle. Since prudence is the responsibility of the trustees and is at best a qualitative measure that cannot be



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precisely defined it is not reasonable to suggest that the way it changes over time can be pinned down so nicely by the actuary.

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 do not think the BAS should so readily discount the option outlined in the first sentence of 8.24.

As to the BAS's suggestion to adopt either approach 3 or 4, it is not the case that scheme members are informed readers, but (if the first option is not available) it would be essential to assume this to avoid disproportionate costs in report preparation.

The current situation, where the report is written for the trustees, allows the report to be prepared for informed readers with a level of detail which enables them to understand the issues and then make decisions. It is right that members should have the opportunity to obtain this report should they choose to do so. But since the Summary Funding Statement is now part of the overall legislative requirements we believe that this document caters for the majority of members who could not be described as "informed readers". Legislation mandates the content of this report and it does not seem appropriate for the BAS in a technical standard to add to this.

Imposing additional requirements on the trustee-facing funding report so that it tries to suit both the trustee level of knowledge and the generally much lower member level of knowledge will increase costs, and potentially obscure the key issues for the trustees in the wealth of additional explanation necessary.

Regarding the proposed principle, and consistent with the rest of this response, we believe actuaries should be able to address their reports to their intended user (in this case the trustees). Reports should not have to address the needs of anyone with an interest in the document, although actuaries should be aware that these people do exist and take that into account in the material presented to the intended user.



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If the BAS retains the principle in its current form, then the final bullet (“material information”) in 8.30 causes us particular difficulty. It is not possible for the actuary to know what decisions members may make and what is material to them in that context.

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

Yes.

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)

We think it would be better for all pension related issues to be covered in the pension TAS.

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)

Maintenance of a glossary of terms is desirable. It could form an appendix to the pensions TAS.

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

The proposal not to specify a default basis in 10.6 is welcomed.

We do not consider the approach of individual actuaries determining the wording for their GN16-type certificate to be attractive (10.12) in terms of managing costs and enhancing reliability for users.



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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?

The encouragement to seek early advice (10.5) is not primarily technical and could be omitted from the pension TAS.

Naming the actuary at the previous valuation (10.5) is technical and as such should be included in the Pension TAS, although it does not seem to confer much benefit to users. In the interests of focussing on the most useful and important pieces of information to users, it could be dropped altogether.

The items in 10.13 and 10.20 are primarily technical in our view. Given the principles proposed by BAS in the pensions and generic TASs, it seems likely that they will be covered by already proposed guidance.

27. In addition to the specific questions listed above, we would welcome respondents' views on any other aspects of the proposed pensions TAS.

We have the following additional comments:

1.7 – “Some pension arrangements are provided by insurance companies” – this is not absolutely clear. Advice to an insurance company as a sponsoring employer of an occupational scheme should be as in (or out of) scope as a sponsor in any other industry.

2.10 and 3.2 – The definition of “material” is too widely drawn in expecting consideration of whether a matter “could influence the decisions to be taken by users”. It is not possible to predict all decisions that might be taken by users (which is defined to include regulators and certain third parties) and “could influence” is again so wide that compliance with this aspect of the TAS is impractical.

3.7 – we agree with this principle but would like it to refer to “judgements at the time the work is performed” to avoid hindsight being used to challenge the judgement of actuaries at a later date.



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4.20 – we generally agree with the principle as long as the wording is tightened – the reference to “work in connection with pension scheme wind ups” is too broad.

4.23 – similar comment to 4.20 above. “Work concerning actuarial factors” is very vague.

9.8 – whilst not without its shortcomings, the current practice of specifying a three month period is on balance better than the BAS’s proposed alternatives which would cause practical difficulties. They could lead to continued uncertainty for users as to whether a transfer without consent remains actuarially certifiable on a day by day basis. Striking some certainty with reference to the position at a particular assessment date gives users most assistance, enabling them to move ahead with implementation and keeps costs proportionate.