

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

18 September 2009

Dear Ms Pryor,

Re: Pensions: Consultation Paper

1. The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.
2. The PPF is a statutory fund run by the Board of the Pension Protection Fund (the Board), a statutory corporation established under the provisions of the Pensions Act 2004. The PPF became operational on 6 April 2005.
3. The PPF welcomes the opportunity to respond to the paper, in particular given that the paper includes proposals which specifically address the work of the PPF. The PPF does not have a view on all the questions asked - those answers which explicitly represent the views of the PPF have been asterisked (*). The answers which have not been asterisked represent the views of various members of the PPF's actuarial team, rather than those of the PPF itself.
4. We have set out our responses to the questions raised in the consultation below.

Q1*. Yes, we agree that it will help meet these aims.

Q2*. We agree that all Reserved work should be within the scope of the pensions TAS.

Q3*. We agree with the intention for the type of work the pensions TAS should cover.

Q4*. We agree that the non-reserved Work listed should be covered.

Q5*. We agree that, given the intention for certain areas to be covered under other TASs, it is appropriate for the other areas not to be included in the scope of the pensions TAS.

Q6. We believe that the principles proposed for the pensions TAS are relevant to work done on scheme design and would provide a useful framework for such work. We would therefore be comfortable with the pensions TAS applying to such work. We believe that existing requirements for providing benefit projections are sufficiently prescriptive that no additional guidance is required and hence would be content for them to be excluded from the pensions TAS.

We do not believe there is any other DC work which should be included within the pensions TAS.

Q7. We do not believe that work performed in connection with mergers and acquisitions should be within the scope of the pensions TAS.

Q8. The Regulator has, as you have noted, issued guidance to trustees covering inducements to transfer. We would expect that actuaries would refer to this when performing such work.

Q9* & 10*. One type of work where actuaries are almost invariably involved is in providing cashflow projections. We feel that such calculations should be governed by the principles of the TAS. We suggest that such work is explicitly included.

A second area in which actuaries are often involved is in advising on risk reduction strategies. Again, we feel such advice should fall under the remit of the TAS and be explicitly included if the BAS's view is that it does not fall under the existing areas.

Q11. We believe that it is reasonable for actuaries to be required to seek data on these areas. It might perhaps be helpful to provide guidance on the route to take when such data is unavailable or the party providing such data is uncooperative.

Q12. We do not believe there are any other data issues which should be included within the pensions TAS.

Q13*. We have comments on the following paragraphs on the proposals concerning assumptions that are presented in section 6 –

6.12 – We are concerned that it is made clear in areas such as this that the scope is limited to certain types of valuation and would not override regulatory or legislative requirements (in particular for PPF valuations).

6.14 – We do not think it is proportionate to require an analysis of experience in all circumstances; it should be made clear in the principle itself that the requirement depends on the circumstances of the scheme. We would welcome more detailed guidance in the principles as to the depth of analysis which should

be performed on different areas of experience, and which factors should be considered when deciding this.

6.19 – We are concerned that this could be taken to preclude the use of single discount rates. Whilst we do not think this is the intention, we would like it made clear that this is not the case.

6.36 – We think it would be sensible to refer to credible publicly available forecasts, since not all publicly available forecasts are worth taking into account.

6.58 – We note, and agree, that the concept of prudence is difficult to define, and to an extent is a matter for the judgement of trustees and those advising them. However, we feel that the concept of prudence constitutes part of a wider assessment of risk and would welcome further guidance from BAS on how to measure, monitor and communicate risk.

We are also interested that the pensions TAS does not intend to define prudence “at this stage”; does this suggest further future changes?

6.61 – We suggest that relevant swap yields are included in the list of factors to be taken into account.

Q14*. We support the concept that it is often helpful to benchmark discount rate assumptions against a “risk-free” rate in order to illustrate risk inherent in a basis. However, we do not feel that it is sufficient just to compare the relationship between the discount rate used and a benchmark “risk-free” rate. We suggest that this principle be broadened to require actuaries to give indicator of risk when setting discount rates, whether that be via illustrations of a range results using different assumptions, alternative measures of risk such as Value at Risk etc.

Q15*. We wonder if there should be principles about the depth and width of the analysis undertaken to support the choice of an assumption. For example, an analysis underlying the choice of the future improvement rate in mortality could embrace many factors beyond the experience of the scheme itself – how deep and wide should that analysis be?

Q16. In general, we welcome the proposals relating to models and calculations. However, we do not feel that it is the actuary’s responsibility to dictate how administrators check their calculations – see the third bullet point in section 7.10.

Q17. We do not believe there are any other principles on models or calculations which should be included within the pensions TAS.

Q18*. The section on reporting includes a specific section on PPF levy calculations. We note that legislation and guidance surrounding these calculations already exists and

would welcome further discussion as to what additional principles BAS would like to introduce.

In particular, we are concerned that in some cases the pensions TAS as it stands may lead to unnecessary reporting requirements. For example, 8.35 states that the intended user of the Section 179 report should be assumed to be the PPF. However, the PPF's guidance on Section 179 valuations states that the report should be addressed and sent to the Trustees and that the PPF does not need to be provided with a copy; instead, data is submitted by the trustees using our online data collection system. As long as approximations made by the actuary are prudent, they are in line with the requirements of our guidance and hence there would be no value in reporting such matters to us. Were all Section 179 reports to be sent to us, this would represent a great deal of unnecessary information for us and unnecessary work for actuaries involved.

Q19.* We are not sure whether the requirement to provide an additional set of best estimate figures for scheme funding advice will add any value for users, above that already provided in sensitivity illustrations commonly used in scheme funding reports. We feel that this sets up a "black and white" system of best estimate vs prudence which may cloud a user's understanding of the potential range of bases available and risks associated with them. An alternative might be a requirement to include a discussion of risk and its measurement during the scheme funding valuation process, with illustrative figures/measures as appropriate.

Q20. We have doubts as to the feasibility of the Scheme Funding report being aimed at scheme members as well as trustees. We feel it would be very challenging to produce a report which met all the needs of both these groups of users; moreover, we believe that in this area, it is sufficient that the trustees have a full understanding of the report and exercise their fiduciary duties based on this. We feel that annual summary funding statements which must be provided to members are sufficient to provide them with information on the scheme's statutory funding position.

Q21. We believe that the provision of specimen reports would be very helpful.

Q22. We do not believe there are any other principles on reporting which should be included within the pensions TAS.

Q23. We are content for guidance on this area to be provided in either the pensions TAS or a specific TAS.

Q24. We strongly believe that maintaining a glossary of actuarial terms would be a very useful tool in ensuring consistency throughout the profession. If these actuarial terms could also be described in simple language then this would also aid understanding of the work done by the profession. The glossary should include actuarial terms defined in legislation as well as terms in common use. We suggest that you ask actuarial consultancies to provide lists of house definitions and use these as a starting point for compiling a glossary.

Q25. In order to give the profession sufficient time to prepare for adopting the principles within the pensions TAS, we would favour a period where either the TAS or GNs could be applied. We believe that in order to minimise additional work of limited benefit to users, any period where both the pensions TAS and GNs are compulsory should be minimised.

Q26. We would suggest that BAS and the profession discuss and come to a decision as to whether these matters are technical or ethical; they can then be included in the pensions TAS or professional guidance as required.

Yours sincerely,

Stephen Rice

Chief Actuary

email: stephen.rice@ppf.gsi.gov.uk

direct telephone: 0208 633 4942