

The Director
Board for Actuarial Standards
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Dear Louise

Consultation on Pensions Standard

PwC is pleased to comment on the first draft of the new Technical Actuarial Standard on Pensions. We have a large presence in the market for corporate pensions advice, providing advice on a wide range of matters directly and indirectly linked to pensions, as well as several Scheme Actuary appointments. We are keen to remain involved in the further development of the Standard.

The Appendix contains our comments on the specific questions raised in the Consultation Paper and we single out four areas in particular where we feel the Standard should take a different direction.

Materiality

As you know from our responses to other consultations, we view the facility to exercise judgement as to how to follow the Standard, taking into account materiality, as essential.

We are pleased the materiality concept features in this draft but we are concerned about the way materiality is defined. It is not right that actuaries can treat a matter as immaterial only if it could not influence users' decisions. The definition should give actuaries wider scope to treat matters as immaterial if, at the time and in the light of the information they can reasonably be expected to have, they have good reason to believe that the matter will not influence users' decisions.

Scope and coverage

We think the scope of the Standard should be limited to reserved advice (primarily advice provided by Scheme Actuaries to trustee clients). In particular, we do not think it should apply to work for companies on scheme funding, M&A work, inducements to transfer, buy-outs and buy-ins or to accounting work.

However, we do not suggest such work should be subject to no standards at all. That would risk users viewing it as in some way less critical and we as actuaries would find it difficult to reconcile having standards for some types of pensions work but not others. Our suggestion is that such work should be subject either to other BAS standards (eg the proposed standard on business rearrangements could address M&A work) or to standards provided by the Profession that could better address issues and working practices relevant to specific areas of work.

Best estimates of liabilities

On balance, we do not believe that every time prudent estimates of liabilities are provided, they should be accompanied by a best estimate. Although we can see why recipients of "prudent"

figures may value a yardstick to gauge the “level of prudence”, we are not convinced this is the answer and suspect it may actually be counterproductive.

Reports to be aimed at “informed readers” – including scheme members

We think this is neither necessary nor practicable. A range of other documents, including summary funding statements are already available to scheme members.

Please contact me or Andrew Hoddinott if you would like to discuss this further.

Yours sincerely

Raj Mody
Partner and Chief Actuary (Pensions)

BAS Pensions Standard Consultation Questions

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

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, although we agree that a standard should address such work

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

Yes, with the exception of scheme funding advice to corporate clients.

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. Accounting work should be included in the proposed standard on Financial Reporting. Investment work need not be covered but BAS could consider whether an actuary providing investment work in relation to an occupational pension scheme should be required at least to state that his work does not comply with the Pensions Standard.

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)

No.

b) benefit projections; (paragraph 4.36)

No, although this may be worthy of further consideration. Whilst not normally reserved advice, assessing benefits expected from a DC scheme involves many of the same actuarial principles as costing/funding a DB scheme.

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)

There are very specific issues and working practices associated with this work, not least in terms of time constraints. We do not think it should be covered by the Pensions TAS but are supportive of it coming within the scope of a business rearrangements TAS.

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

We do not think this work should fall within the Pensions TAS. However, this is another area with some very specific issues that could be addressed in separate guidance, perhaps from the Profession. Poorly advised or constructed inducement exercises are a potential minefield for the profession.

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. However, we would point out that BAS's reasoning for why some areas of work can be excluded – that any decisions that affect members will ultimately involve the Scheme Actuary – may not always hold true. In some scheme the balance of power to make changes may be tilted towards the employer and it may be dangerous to rely on the trustee actuary to this extent.

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?

No. These seem sensible (in conjunction with the Data Standard).

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?

6.3 We agree BAS should not set benchmarks

6.8 Purpose of work is clearly important for setting assumptions

6.12 *We do not agree* with having to take account of all material events after the effective date. The statement should be weaker, along the lines of “the selection of assumptions may also take account of any material events...” The suggestion at the moment seems to imply that assumptions would have to be revised if, for example, markets fell in value after the valuation date – In this case we feel it would be more appropriate to use the same snapshot assumptions but make allowance in the conclusions for subsequent events.

6.14 We agree the Standard should require comparison of experience with assumptions – bearing in mind materiality. Facility for qualitative analysis is important. This does not seem to appear in summary at end of paper and we encourage BAS to include it at the next stage. For small schemes it is not always possible or reasonable to analyse the recent experience, so it may be better to say “If appropriate, recent experience...”

6.16 We agree there is a need to obtain information about matters controlled by employer

6.19 We agree that assumptions should not be adjusted to compensate for shortcomings in another assumption (although facility to depart from this on grounds of materiality is essential in some cases).

6.33 We agree that it is important to take account of current and expected investment strategy if discount rate is related to scheme assets.

6.35 We agree that it is important to take account of reinvestment risk.

6.36 We agree, in principle, that inflation assumptions should take account of financial indicators and publicly available forecasts. In practice, forecasts over the long periods appropriate for pension schemes are very few and far between.

6.42 We agree there is a need for separate assumptions for current and future mortality and that (subject to materiality) current rates should reflect the estimated current rates for the scheme.

For small schemes, we suggest it may be necessary, on grounds of statistical significance, to refer to published standard tables and make adjustments using established rating factors like postcodes.

6.46 We agree it is important to take discretionary policy into account. However, the way the Standard is phrased must avoid any risk of, in effect, making it compulsory to fund for discretionary practises.

6.53 *We do not agree* with forcing any particular treatment of expenses. We can see no justification for this requirement.

6.61 We agree there is a need to take account of annuity rates, nature of liabilities and relevant bond yields when assessing discontinuance/wind-up position.

6.63 We agree in principle that TV assumptions should be justifiable compared with Scheme Funding assumptions and that trustees can benefit from understanding how they compare.

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)

On balance, we do not think this is a good idea. It may assist users' understanding or it may not, depending on user and circumstances. Therefore, this should not be a standing requirement for all pensions work covered by the Standard.

However, it is important that there is a requirement to explain to users the implications of a chosen discount rate, particularly the fact that using any rate higher than a "low risk" rate amounts to taking advance credit for income and capital growth that may never materialise. An explanation along these lines (with wording left the actuary to tailor to the user), together with the requirement elsewhere in the Standard for evidence-based assumptions should be more effective.

There are also practical difficulties deciding upon a suitable "low risk" 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?

We question why the actuary should have to provide procedures for checking calculations by another party of individual members' benefits.

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 are not convinced that it is always appropriate to show the worst case scenario. For example many schemes have equalised benefits but still know that there could be some uncertainty about whether GMP has been dealt with correctly. Perhaps it is better to show the likely outcome with a comment that it could be worse (without quantification).

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)

No.

Best estimates themselves are generally highly uncertain. There is a real risk that, by introducing a measure that with the best intention is aimed at improving trustees' and employers' chances of understanding to what extent their liabilities are "prudent", quite the reverse will ensue. Bear in mind that two actuaries (eg the trustees' and employer's actuaries) can quite reasonably have different best estimates.

Certainly, there should be debate with the Trustees about what "prudence" means, and information provided to them about ranges and likelihoods. But it should not be necessary to go beyond statutory and regulatory requirements by compelling best estimates to accompany prudent liabilities.

BAS could consider requiring buy-out estimates to accompany prudent liabilities.

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?

No. Whilst scheme members have the right to request the report from the trustees, that does not mean they should be treated as the intended recipients. Other documents (eg summary funding statements) are aimed specifically at members.

Actuaries would find themselves in the awkward, if not impossible, position of constantly having to judge how "informed" scheme members are, particularly given they will normally have no direct contact with them (unlike for trustees, with whom the actuary will have regular contact).

Do respondents agree with our conclusion that this would result in little extra work? (paragraphs 8.20 to 8.31)

No, not if reports have to be tailored to members.

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

On balance, no. There is always a danger that a specimen Scheme Funding report will become a standard which will lead away from actuaries using their professional judgement about how best to communicate their ideas and results. Many Summary Funding Statements suffer from this effect.

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)

These certainly need to be covered. Not sure whether best in Pensions Standard or elsewhere. Probably the Pensions Standard, otherwise there's a risk that the Standard will be too generic to be useful.

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)

Yes, it would be useful.

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

These seem reasonable.

GN16: How is BAS intending to retain the Counsel's opinion (which remains one of actuaries' only sources of information about the considerations underlying GN16 certification)

GN34: Replacement material covering DC illustrations is needed.

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 do not view any of these matters as falling into the "ethical" class. They are best in the technical standard as they are clear actions that actuaries should take in certain circumstances, with no element of judgement involved.