

11 INVITATION TO COMMENT

QUESTIONS

11.1 We invite the views of those stakeholders and other parties interested in actuarial information who wish to comment on the content of this document. In particular we would welcome views on the following issues:

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?

A While the outcome is clearly appropriate, surely the wording should record the purpose of the TAS being be to provide guidance to actuaries in relation to the advice given in relation to occupational pension schemes so that a) trustees...etc.

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)

A 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)

A Yes, although we do have some reservations about the overhead that this will add to actuaries in comparison with non-actuaries who may advise on these matters, and, if this leads to such work being carried out by non-actuaries, and that work does not comply with the TAS, then this may run counter to BAS's reliability objective.

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

A No - for the reasons set out in the answer to the previous question - but actuaries should be encouraged to comply.

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?

A 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)

A 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)

A 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)

A No, but actuaries should be encouraged to comply.

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)

A No.

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

A 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?

A While the proposals for data in 5.7 and 5.12 are appropriate, the reference in 5.10 to the inclusion of the open-ended “any relevant legal opinion” is not practical. It may be appropriate for the TAS to require attention to be drawn to any *scheme-specific* legal opinion and perhaps, if no such opinion has been received, to suggest that it should. However, the TAS should recognise that actuaries are not qualified to interpret legal opinion definitively.

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

A No.

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- 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?
- A Re 6.3 – Since the responsibility for decisions on “Scheme Funding” assumptions usually rests with the trustees, we agree that it would be inappropriate to set any benchmark. In rare circumstances where the actuary has the responsibility, this should be left to professional judgment. Re 6.8 No comment. Re 6.12 – The second sentence should be deleted; while a report should refer to material events since the valuation or calculation date, assumptions should be generally be set by reference to market conditions at the relevant date. Re 6.14 – No. The words “and salary increases” should be deleted. Re 6.16 – We suggest that the words “such as expected future withdrawal and early retirement rates and salary increases” should be added after “on matters”. Re 6.19 No comment. Re 6.33 This wording is ambiguous in its reference to “anticipation of future changes. For practical and other reasons, the requirement of anticipation should relate only to “any known future changes”. 6.35 – For the TAS to be useful in this context, it should include guidance on how it is expected that account should be taken of this risk. Re 6.36 and and 6.46 No comment. Re 6.42, this comment is too wide and should relate only to circumstances where analysis of scheme specific mortality rates is statistically relevant, although some qualitative assessment should be made, where possible. Re 6.53 – While we agree with the comments in 6.49, we do not agree that the analysis suggested in 6.53 is meaningful (even where it is possible), nor is it always relevant. In any event, we suggest that the wording should start with “Where advice covers provision for future expenses, ..”
- We do not accept the statement in 6.59 that “This (the meaning of prudence – a term not defined in legislation) means that estimates described as prudent should be accompanied by an indication of the level of prudence involved. This whole section appears to be based on the false assumption that deriving a best estimate is a trivial or routine practice. It is not.
- Re 6.61 – We suggest that the phrase “possible (sic) annuity rates “ should be replaced with “annuity rates that may reasonably be expected to be”, and that the level of relevant bond yields should be an alternative to expected annuity rates, not an additional requirement. Re 6.63 – We strongly disagree with the reference to “justifiable in relation to the assumptions used for Scheme Funding”; the legislative requirement is clearly for CETV assumptions to be no more aggressive than best estimate, whereas Scheme Funding assumptions must be prudent/chosen prudently. A simple explanation of the different statutory requirement should suffice. Again (as in 6.59), there is an assumption that because the legislation requires cash equivalent transfer values to be at least best estimate values, then the best estimate will be quantified. In practice, as is recognized in the Pensions Regulator’s guidance, “trustees [should] recognise that “best estimate” is not a precise concept and they will often need to be pragmatic and accept choices which seem reasonable in the light of the information and advice they have obtained” - by setting a basis that they are

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comfortable provide somewhat more than a best estimate, but therefore satisfies the requirement to provide at least a best estimate.

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)

A We consider it inappropriate to require the use of a comparator rate, for the same reasons as we would not support any benchmark, and because any standard comparator would not necessarily be relevant or appropriate to all schemes.

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

A 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?

A We suggest that 7.6 should include reference to an explanation of how the selected method differs from other permissible methods.

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

A 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?

A Re 8.4 – This does not recognise that the responsibility for decisions on “Scheme Funding” assumptions usually rests with the trustees, nor the statutory requirement for changes to be justified by a change of legal, demographic or economic circumstances. We suggest it is omitted. Re 8.17 - No comment, except in relation to the reference to “the risk that the scheme sponsor may not be able to continue to pay contributions or make good deficits in future”. If this is to be anything other than the inclusion of this caveat, BAS should clarify what is expected, and how risk is to be measured. (This is not a topic on which actuaries have particular expertise or insight.)
Re 8.18 – The second sentence should be omitted; the quantification of “the maximum liability” is an issue which the industry has failed to resolve for almost 20 years. Re 8.35 - No comment (other than “Unnecessary”). Re 8.38 – While we accept the principle, we suggest that “how robust” (sic) is replaced with a reference to the time and/or circumstances when a review is appropriate. Re 8.39 and 8.40 - No comment.

19 Do respondents agree that in Scheme Funding exercises any prudent estimate of scheme liabilities should be accompanied by a best

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estimate? (paragraphs 8.10 to 8.15)

A We strongly object to this inappropriate and impractical proposal. It is not for actuaries to seek to clarify legislation or provide guidance not provided by the Pensions Regulator. The argument in 8.11 is flawed; the CETV legislation requires an underpin based on a best estimate approach – this does not necessarily mean that best estimates are quantified even in this restricted context. See also the comments re 6.59 above, including the Pensions Regulator’s guidance.

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)

A This is a real challenge, since it is unsafe to assume that scheme members will be “informed readers”, but reports should include sufficient information for informed readers to understand the financial position of the scheme (at the valuation date). We suggest that since the concept of a Summary Funding Statement is already enshrined in legislation, there is no need to create a separate “actuarial” report.

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

A Yes.

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

A It would be helpful to include more practical guidance eg re 6.35, 8.38 etc.

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)

A We suggest all pensions related issues should be covered in the pensions 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)

A We would support the availability of a glossary – perhaps as 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?

A We would have no objection to the retention of some GN material for

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a limited transitional period. Indeed, elsewhere we have suggested that rather than the proposed introduction of the Data and Reporting standards retroactively, it would be preferable to have a period of transition during which compliance with either the relevant GN or standard should be sufficient and acceptable.

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?

A Apart from the encouragement to seek early advice (10.5, first bullet), which is included in the Regulator's guidance, and drawing attention to the Regulator's guidance (10.24, first bullet), we see all the other issues to be essentially technical, and therefore for inclusion in the Pensions TAS.

MDP

11 August 2009