

CBI REPOSE TO THE CONSULTATION ON BAS EXPOSURE DRAFT: PENSIONS

1. The CBI welcomes this opportunity to respond to Board of Actuarial Standards (BAS) consultation on an exposure draft on pensions. The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce.
2. In principle CBI members are supportive of efforts to encourage best practice and comprehensive actuarial information for end-users. However we believe this exposure draft does not achieve that aim. Instead, it unnecessarily increases advisory costs while including some requirements that can only lead to confusion and uncertainty among end-users.
3. CBI members have considerable concerns about this exposure draft and believe a more wide-ranging consultation with employers, corporate advisers and trustees on future use of actuarial work by pension schemes is necessary. The following are some of the particular concerns employers have with the current proposal:
 - Compliance costs will be too high at a time of rapidly increasing pensions costs
 - Proposals to include neutral estimates alongside prudent estimates should be abandoned
 - Employee representatives should under no circumstance have a right to be consulted or involved in the decision-making process related to actuarial work.

Compliance costs will be too high at a time of rapidly increasing pensions costs

4. Corporate contributions to defined benefit (DB) schemes passed £8bn a year for the first time in 1998. By 2008, they were over £8.5bn a quarter. This unsustainable increase in costs – driven by longevity increases and a tide of regulation – meant that pensions once again rose to the top of the agenda of boardrooms in the UK. Today, after the devastating effect of the financial crisis on firms and their schemes, to demand an unnecessary increase in administrative costs will do nothing but fuel the rate of scheme closure we have seen over recent months.
5. The consultation's impact assessment – paragraph 6.2 – points out that because private sector pension liabilities are circa £1trillion, the compliance costs of this TAS will be insignificant in comparison. This is a flawed argument – £1bn is just 0.001 per cent of £1trillion, a small percentage of total scheme liabilities but, as most would agree, an unacceptable cost to any employer. More realistically speaking, actuarial advisers in CBI membership have estimated that the proposed TAS will increase administrative fees by 5-10 per cent for each employer. This again continues to be too high a cost driven primarily by an increase in the scope of the standard and unnecessary 'one-size-fits-all' approach to actuarial reporting.

6. Most companies and trust boards are professional institutions that do not require being ‘spoon-fed’ information. Trust boards, in particular, have a fiduciary duty to protect scheme members, which the Pensions Regulator has powers to remove existing trustees and appoint new ones if they fail on their duties. The current draft TAS overlooks these existing regulatory safeguards.

Proposals to include neutral estimates alongside prudent estimates should be abandoned

7. CBI members are opposed to the proposal to include neutral estimates alongside prudent estimates in actuarial reports. The consultation document argues that this requirement would provide trustees with an indication of the level of prudence in prudent estimates and enable comparison to be made between consecutive exercises.
8. While we agree that trustees should make informed decisions on the basis of valid actuarial information, the proposed additional requirement does not achieve this. In fact, it could lead to the complete opposite, a distortion of prudency rules.
9. The legal requirement to take into account prudency when setting up assumptions emanates from the 2003 IORPs Directive and the 2004 Pensions Act. The Pensions Regulator’s scheme-specific regime requires that estimates for scheme funding exercises are chosen prudently. There is no requirement for the inclusion of neutral, or best, estimates. Any inclusion of a ‘worst-case scenario’ in estimating the liabilities of the scheme could be act as a behavioural driver for trustees in negotiations with employers. This may heighten the ‘reckless prudence’ we have already seen in some schemes.
10. Throughout 2009 and 2010 both the Pensions Regulator and the CBI have been warning trustees about the importance of ensuring sponsor affordability trustees to prevent scheme deficits from pushing companies over the edge at a time of low consumer demand and credit availability. This is why the Regulator in its public communication in February 2009 acknowledged the possibility of longer and back-dated recovery plans being put in place, acknowledging that the best possible protection for members’ rights is a viable sponsoring employer¹. Over the coming years pensions will continue to be a wider economic problem, funds being diverted to the scheme are those that are not being invested in the day-to-day business, slowing down the pace of the recovery.
11. The body which should have full control over actuarial assumptions on the trustee side is the trust board. The board is required by law to act in the members’ best interests and has a significant proportion of member-nominated trustees on it. These can be either directly elected, or be nominated by unions and works councils.
12. Changes to standards for the use of actuarial work should not undermine trust law. We do not support the suggestion, brought forward at some discussion events, that employee representatives should have a role. Trustees already do this work.

**Employment Policy Directorate
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¹ <http://www.thepensionsregulator.gov.uk/docs/statement-to-employers-feb-2009.pdf>