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Dear BAS Director

## Board for Actuarial Standards ('BAS'), Exposure Draft: Pensions

### Introduction

Ernst & Young LLP welcomes the opportunity to comment on BAS's Exposure Draft on pensions ("the Exposure Draft"), as a follow through from the earlier consultation paper.

Unless the context dictates otherwise, in this letter defined terms shall have the same meaning given to them in the Exposure Draft and covering document.

### Overview

In our response to the earlier consultation, we explained that our interest in this area is twofold: as a supplier and user, of pensions actuarial services and outputs respectively.

Overall, we consider that the Exposure Draft covers the key issues relating to the achievement of BAS's Reliability Objective. We particularly welcome and support the additional information requirements for triennial valuation reports, which should assist transparency, particularly in the M&A marketplace.

Other observations include:

1. You have introduced the concept of a "neutral estimate" as a more accurate description of what was previously referred to as a "best estimate". While we recognise the term "neutral estimate" reflects more effectively the subjectivity in the calculation, we should point out that "best estimate" is a term used in TAS-M and by other FRC bodies (e.g., ASB's FRS17). We encourage BAS to provide guidance on the use of this new term, if its introduction creates a situation where two distinct references have the same meaning.
2. The guidance could perhaps explain that a "best estimate" is simply a personal estimate of the expected outcome ("his/her/their best estimate") whereas "neutral estimate" could refer to any liability measure that might reasonably be justified as an estimate of the median outcome ("a neutral estimate"). This could still lead to inconsistencies. For

example, in our view, most companies have never made such a distinction in deriving pension scheme assumptions for accounting purposes.

3. The scope of the work performed in connection with defined contribution schemes (relating to plan design) is typically sponsor-driven, and we do not believe that TAS-P should be applicable to this. In practice, actuaries compete for this work with corporate IFAs and others for whom TAS-P or equivalent constraints do not apply. Unfortunately perhaps, market practice and benchmarking tend to drive scheme design at least as much if not more than the projected outcomes for members.
4. We agree that actuaries should be regulated when preparing defined contribution (DC) benefit illustrations. Anecdotal evidence suggests that some actuaries are unaware of the current GN34, and some may not have considered the extent to which mandatory standards could be helpful in preserving quality.

While in our experience accessible modellers and illustrations can be produced that are fully GN34 compliant, there is a tension between accessibility (readability and ease of use) and the degree of disclosure around sensitivities, risks and assumptions used. BAS may wish to clarify further its expectations for defined contribution illustrations, for example by holding workshops with members, or by giving 'good' and 'bad' examples. We also encourage BAS to monitor how this will develop in practice.

5. It is not clear from the Exposure Draft whether Part E applies to advice given to employers as well as to advice given to governing bodies. Our view is that the requirements of Part D are sufficient for employers and we welcome this clarification.

## Response to specific issues

The BAS has invited comments on six key issues. Our responses to these issues are detailed below.

### 1. The application of the Pensions TAS to schemes not subject to Scheme Funding

- ▶ We believe that the application of the Pensions TAS to schemes not subject to Scheme Funding (e.g., Employer Funded Retirement Benefit Schemes) might be excessive.

### 2. The definition of governing body, especially examples of schemes for which the definition is not appropriate

- ▶ We consider that the proposed definition of what constitutes a “governing body” is reasonable.

### **3. The proposed commencement date for the Pensions TAS**

- ▶ We understand that the Pensions TAS is to apply to aggregate reports completed on or after 1 April 2011. We believe this enables adequate time for practitioners to comply with the standard.

### **4. The transition to the Pension TAS from the adopted Guidance Notes**

- ▶ We believe it will be a relatively simple process for actuaries to transition from using the adopted Guidance Notes to the Pensions TAS. Our view is that actuaries should be allowed to adopt TAS-P and TAS-M early, and provided that both of these TAS are followed (together with TAS-D and TAS-R) the requirements of the adopted guidance notes need not apply. A statement to this effect should be included with any significant written advice.
- ▶ This should allow practitioners to plan their migration to the new TAS in an orderly way and encourage early adoption which should benefit users of actuarial information.
- ▶ The transition from GN34 (Illustration of Defined Contribution Pension Scheme Benefits) to the Pensions TAS may become an important issue since this essentially moves from a set of best practice to mandatory principles. BAS should consider monitoring the effect this aspect of TAS-P has on actuarial practice. Many firms employing actuaries produce pension illustrations in a variety of media and we suspect they will interpret the principles set out in TAS-P very differently for this aspect of their work.

### **5. Our impact assessment and the effects that the introduction of the Pensions TAS is likely to have on actuarial information**

- ▶ We would consider the impact assessment to be reasonable. However, it is likely that the introduction of the Pensions TAS will disproportionately impact smaller schemes, where the extra costs will be more significant relative to the size of the scheme.

### **6. The text of the exposure draft as a means of implementing the proposals presented in the document**

- ▶ We consider the text to be a reasonable means of implementing the proposals presented in the document.

## **Conclusion**

We are grateful to the BAS for publishing the Exposure Draft and for the analysis it has put forward.

We hope our response is helpful and respectfully ask BAS to publish it alongside other responses. If BAS would like further clarification on the points raised by Ernst & Young, please contact me at your convenience.

Yours sincerely

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