



First Actuarial response to Consultation on Board for Actuarial Standards Exposure Draft : Pensions

On behalf of First Actuarial LLP, I am pleased to offer the following comments in response to the proposed Pensions TAS.

On a general point, we support the decision that the pensions work previously in scope of Accounts TAS and the Transformations TAS will now be covered in the Pensions TAS.

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

No comment

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

No comment

3. Proposed commencement date for the Pensions TAS.

The Board for Actuarial Standards has listened to concerns previously expressed about commencement dates. For the majority of work in scope, a commencement date of 1 April 2011 is workable. However, there will be a number of valuations currently being undertaken with a valuation date in April 2010, which may not be completed until after 1 April 2011. In some cases, the proposed commencement date may require work to be revisited to ensure compliance with the Pensions TAS.

4. The transition to the Pensions TAS from the adopted Guidance Notes.

We would support the suggestion that in the period between the publication of the Pensions TAS and its commencement date, reports that would comply with the Pensions TAS (and TAS R) should not need to comply with GN9. In our view, an amendment to GN9 to permit actuaries to adopt the Pensions TAS early does not appear to be an onerous change to make and would be a clear encouragement to actuaries to do so.

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

We question your comment in 6.5, that “As the TASs will initially cover trustee work the costs to employers are expected not to be material”.

It is the employer who ultimately meets the costs of all expenses of running a pension scheme (whether that is meeting expenses directly or paying additional contributions into the scheme to meet expenses).

We acknowledge that for some clients, the additional information required by the Pensions TAS may be seen by them to add value as set out in the benefits you have identified. However, when dealing with small pension schemes, this will not always be the case, even though we would support the desire that it should be.

Our early experience of TAS R is that the additional compliance work required for the one-off smaller tasks, such as responding to an e-mail, may sometimes outweigh the time taken drafting the response in the first place.

The impact assessment refers to transitional costs of between 5-10%, but even when the new procedures have been bedded in, we anticipate that there will continue to be higher costs which will need to be met by the clients.

6. The text of the exposure draft as a means of implementing the proposals sets out in the exposure draft.

We support the exposure draft both in terms of scope and wording used but have just a few comments in relation to the actual wording proposed:

D 2.4 (and D 2.19) states “*recent experience of the pension scheme if it is statistically well-grounded.*”

Use of the term “well-grounded” could, we believe, be interpreted in different ways by different people and would prefer to see the more common wording of “statistically significant” or “statistically credible”.

D 2.14 refers to the “*possible effects on matters such as contribution levels and solvency levels in different scenarios.*”

Can you please clarify whether by using the words “in different scenarios”, BAS is expecting scenario testing to be undertaken, so that for example, the contribution and funding level might be shown under various hypothetical economic scenarios such as boom, bust, stagflation, hyperinflation etc? Or is the intention to just extend the TAS R requirements for sensitivity analysis to contribution levels and solvency levels?

As you have defined funding level, we infer that by solvency level you mean the funding level on the solvency (i.e. buy-out) basis. In which case would it not be better to just use the term solvency position which has been defined?

E 3.3 states “*Aggregate reports shall describe and explain the implications of different funding **methods** and **measures**.*”

We have 2 points to make relating to this requirement.

Firstly, the explanation given in E3.4 suggests that by funding method BAS is, for example, referring to the projected unit method.

Method is defined as “*the mechanism that is used to quantify an (uncertain) asset or liability amount. Two different methods of calculating the same asset or liability measure should produce similar results.*”

When applying the requirements to scheme funding work, is there intended to be any difference between the use of ‘method’ in TAS R and ‘funding method’ in the Pensions TAS? If so, it would be helpful if the Pensions TAS could introduce a new definition “funding method” spelling out that this could be the projected unit method, current unit method etc. E.3.4 would then have the words “funding method” in bold font, rather than just the word “method” being in bold font.

One interpretation of TAS R could be that carrying out a full member by member accurate valuation is one method and carrying out an approximate valuation by rolling forward results from a previous valuation would be another method. Both however are expected to produce similar results. Would this interpretation be correct? Some clarification would be helpful.

Secondly, E 3.3 requires explanation of the different funding methods and measures. This will be appropriate if advising a new defined benefit scheme. However, for schemes that have already completed a Statutory Funding Objective valuation, their Statement of Funding Principles will set out the funding method and measure to be adopted. As legislation restricts any change to the principles to those that can be justified on the grounds of legislative, economic or demographic change, there will only be limited circumstances where a change in funding method can be justified. However, as currently worded, the exposure draft suggests that you should set out the options for different funding methods in all cases. Although actuaries would be able to argue that provision of that information is not always proportionate, it might be preferable if E3.3 was reworded:

“Aggregate reports shall describe and explain the implications of the funding methods and measures under consideration.”

E 3.7 states “*Aggregate reports shall include a comparison of the assumptions to be adopted for the calculation of the technical provisions with the the solvency basis*”

Apart from removing the duplicate ‘the’, are you looking for us to provide a commentary comparing discount rates, mortality tables etc of the two bases? TAS R C 4.4 already requires the assumptions for both bases to be stated. TAS R C 5.8 requires the nature and objective of each calculation to be carried out to be stated. Is anything more really needed?

In E.6.2, similar wording is used in relation to comparing the basis for cash equivalent transfer values and assumptions used in the Scheme Funding assessment. However, the exposure draft goes on to explain that this comparison will need to include an



explanation of the differences between the two sets of assumptions. Should E.3.7 include similar wording?

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