



20 May 2010

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

JLT Benefit Solutions Limited

St James's House
7 Charlotte Street
Manchester
M1 4DZ

Tel +44 (0) 161 931 4400
Direct +44 (0) 161 242 5321
Fax +44 (0) 161 242 5306

www.jltgroup.com

Ref: 0110Lt001

Dear Sirs

Response to Exposure Draft - Pensions TAS

Jardine Lloyd Thompson provides consulting, actuarial and administration services to trustees and employers in relation to 1,500 or so work-based pension arrangements with assets ranging from a few thousand pounds to over £1,400m, and to individuals with regard to individual pensions. Following the combination of the JLT and HSBC Actuaries and Consultants businesses we now employ close to 100 qualified actuaries. This letter sets out JLT's response to the consultation.

Before getting into the detailed provisions of the exposure draft, we wish to comment on its overall structure. The BAS has said many times that it is aiming for principle based legislation rather than a "tick-box" approach. However, even if you exclude the section describing its scope, the proposed TAS P contains 27 principles. Once you add the principles contained in the generic TASs, actuaries will need to be comfortable that they have considered compliance with over 50 principles every time they are involved in a piece of relevant pensions work. We suggest that the only practical way for actuaries to deal with this is a "tick-box" approach, and ask the BAS to reconsider this apparent conflict between their stated aims and the practical implications of TAS P.

Scope

With two exceptions, we consider that the proposed scope of TAS P is broadly reasonable. The two exceptions are:

- As we have commented in earlier consultations, we disagree strongly with your proposal to include actuarial work on funding levels/contribution requirements provided to support trustee decisions on investment strategy. We do so because such work is often carried out by non actuaries. Including it within the scope of TAS P (and therefore within the scope of the generic TASs) will create a "non-level playing field" and a potentially material market distortion between actuaries and non actuaries.
- We welcome your decision to include pension accounting work within TAS P rather than a separate accounting TAS. We repeat the view we expressed in a previous consultation that similarly, pension "transformations" should be within the scope of TAS P rather than a separate TAS on "transformations". If a separate "transformations" TAS is retained then we are concerned by the suggestion in paragraph 2.24 of your response that work would need to comply with some clauses in TAS P and some in the new TAS, as well as the generic TASs.

At a more detailed level, it seems to us that there are some inconsistencies in the scope which might seem strange to the potential users of actuarial information.

- All actuarial work for trustees to enable them to make decisions on contribution requirements is to be within scope, but in relation to corresponding actuarial work for employers the scope is restricted to Scheme Funding Assessments. It may be that the BAS considers that there is no significant difference between the scope for trustee work and employer work in this area, but we suggest there could be actuarial work for employers on contribution requirements which is not part of a Scheme Funding assessment, this being out of TAS scope may be a source of confusion for users.
- Work for trustees in relation to bulk transfers is to be in scope, but not so work for employers. We could understand this if the trustee work in scope was restricted to that required by legislation (as there is no legislative requirement for corresponding work for employers), but it seems as if your proposal means non reserved work for trustees is in scope but non reserved work for employers is not.

Also, there are two instances where the detail of the proposed wording could have some implications which we suspect are not intended:

- Defined contribution projection work for scheme members which involves assumptions other than those specified in “legislation or other rules” is in scope. The user for this work will be the member, and we suggest that the requirements of the generic TASs will mean that any actuary producing such work will need a considerable amount of information about the decisions the member may wish to make. We suggest this may be impractical in many circumstances and effectively excludes actuaries from involvement in online projection tools. We find it hard to believe this was the BAS’s intention.
- Paragraph C1.17 taken together with the definition of “actuarial factor” seems to us to mean that every transfer value, early/late retirement, commutation calculated by an actuary (but not by a non actuary) is in scope and subject to TAS P and all the generic TASs. This is surely not the intention as it again risks generating a ‘non level playing field’ and/or discouraging checking procedures which involve referral to an actuary.

General Principles

- The proposed requirement in paragraph D.2.16 to explain how the discount rates used/proposed compare with expected returns from the documented investment strategy seems unnecessary given the requirements in D.2.3 and D.2.12, and in relation to statutory funding work, the requirements of E.4.2 for “neutral estimates”. (We have other comments on the “neutral estimates” requirements later.) In general we are concerned that by **requiring** actuaries to provide information on assumptions and estimates on multiple bases you will risk confusing users and involve them in unnecessary expense. It should always be remembered that if users wish additional work to assist their understanding they can always commission it themselves.
- The proposed paragraph D.3.1 requires actuaries to seek data from “any party associated with a pension scheme who has influence or control over matters affecting benefits payable to members”. In schemes which allow members to exercise benefit options (i.e. most defined benefit schemes), the members themselves fit this definition. We find it hard to believe that the BAS is expecting actuaries to ask each member whether, for instance, they expect to commute pension for cash at retirement. The lack of a mention of members in D.3.2 would seem to confirm this. However, if this is the case we suggest the wording of D.3.1 requires amendment to clarify this.

Schemes subject to Part 3 of the Pensions Act 2004

- Paragraph E.4.2 contains the proposed requirements in relation to “neutral estimates”. These effectively replace previously proposed requirements in relation to “best estimates”. Given that trustees and employers are already required to consider solvency assumptions/liabilities, PPF assumptions/liabilities, prudent assumptions/liabilities, and possibly discount rates versus expected investment returns (see above), we have stated previously and continue to believe that a requirement to provide information on best estimate assumptions/liabilities is potentially confusing and an unnecessary imposed expense. As we have said above, if a user wants best estimate information, they can always choose to commission it. We believe you have now made the position worse with alternative requirements for information on neutral estimates, because we simply do not know what your definition of “neutral” means. While we understand the theoretical desirability of it, the concept of this measure giving trustees a “clear understanding of the degree of prudence” seems fundamentally flawed when the ‘degree of prudence’ is undefined (how would this sensibly be measured?) and particularly when we are talking about an approximate calculation of a measure that is itself ‘within a range’. This range could be very large given the ambiguity surrounding what a ‘neutral’ discount rate may be, even before considering other assumptions.

Your discussion also seems to dismiss the practical difficulties in providing (even a reasonable approximation) to liabilities once they are amended to reflect a best estimate view on items such as withdrawal rates. There **will** be material additional costs generated by this requirement. This is for work that has not been requested and is potentially confusing or misleading (particularly if you seek to include the ‘same degree of prudence’ at the next review).

In short, we would like you to drop the best estimate/neutral estimate requirements, but if they absolutely must be retained, please revert to a “best estimate” definition which we at least thought we understood.

- We welcome your clarification that members are not users in relation to a Scheme Funding Report. However, we suggest that in introducing the concept of an “informed reader” and then introducing a whole range of information which should be in the Scheme Funding Report to assist the “informed reader”, the BAS is imposing unnecessary costs on users, and arguably going beyond its remit.

You have correctly identified that users should be provided with all actuarial information relevant to their decisions before those decisions are made, and therefore that a Scheme Funding Report which is produced after decisions have been made can’t contribute to compliance with the TASs in relation to those decisions. There was therefore an opportunity to minimise imposed costs on users by allowing the Scheme Funding Report to contain no more than is required by legislation (and to allow it to be treated as a component report in relation to other work). Instead, you have proposed a substantive range of additional information which must be included in the Scheme Funding Report for the benefit of the “informed reader”, including information that may not have been required in the previous advice provided to the trustees. This effectively imposes substantial extra costs on trustees/sponsoring employers of all schemes, regardless of size.

We question if the BAS should unilaterally require actuaries to provide information for the “informed reader” well in excess of that required by legislation. If the BAS believes it is in the public interest for this information to be made generally available, surely a more appropriate route is for the BAS to seek a change to the legislation either in relation to

Scheme Funding Reports, or possibly more appropriately in relation to Summary Funding Statements.

Again, if these proposals are to be retained then we have the following particular concerns:

- The requirement to estimate the assets and technical provisions under E5.2(e) rather than simply the funding level and/or deficit will require more detailed calculations (and hence costs) while adding (we would suggest) little value.
- The information on projected cash flows suggested under E5.8 seems very onerous and costly while adding (we would suggest) even less value.
- E5.10 bullet point 1 should presumably refer to "risks in relation to funding" unless the intention is to incorporate wider risks as set out in a trustees risk register (which again would impose additional costs).

Turning to the specific questions

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

We agree with this approach, although there is still not complete consistency as to what is and what is not in scope.

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

We are happy with the definition.

3. *the proposed commencement date for the pensions TAS*

There will be a not inconsiderable amount of work to be done to implement all aspects of the Pensions TAS as currently proposed. However we believe BAS will have no option but to press ahead with April 2011 given the implementation dates for other TASs. Therefore we must accept the timetable.

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

As the BAS has identified the issues are with GN9. There seems to be no simple way around this save for delaying the commencement date to a later date with voluntary compliance in the interim.

We support the suggestion in paragraph 5.3 of your document that reports should not be required to comply with GN9 if they comply fully with the Pensions TAS and TAS R (through early adoption of TAS P). This would aid efficient preparation of final reports that may be signed off in either March or April next year.

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

Whilst we would not disagree with the levels of transitional cost quoted we would suggest that the BAS have not subjected themselves to the rigour of a TAS in merely stating these costs. Nevertheless, and putting flippancy to the side, we do object strongly to the comment in 6.13, "We would therefore expect much of the cost of transition to be borne by practitioners in the same way as they absorb other costs". It is, we suggest, not the job of the BAS to effectively instruct, since this document is in the public domain, practitioners on how it sets its fees for providing services and who bears the costs. To our mind if the benefits cannot be easily demonstrated to the user then the costs are perhaps not justified and the thrust of the TAS is inappropriate. It is

up to practitioners to decide what costs will be passed on. We would therefore request the BAS in future TASs and similar public documents to refrain from making such statements. It is too late for this TAS since the statement has been made and is in the public domain.

We would also take issue with your view that the implementation of the TASs “will not result in any significant additional costs for Scheme Funding Assessments”. Whilst there might not be any additional ongoing (as opposed to transitional) costs if the Scheme Funding Report contained only the information required by legislation, we consider that your proposed requirements for the “informed reader” will result in significant additional ongoing costs.

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

Other than the comments above we have no other comments.

We thank you for giving an opportunity to comment as well as, in advance, for the consideration of our comments. We hope that you regard our comments as helpful. My colleague Stewart Lee, who led the drafting of our response, or I would be more than happy to discuss any of the points in more detail.

Yours sincerely



Phil Wadsworth MA FFA
Executive Director, Trustee Services