

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

21 May 2010

Dear Ms Pryor,

Re: Pensions: Exposure draft

1. The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.
2. The PPF is a statutory fund run by the Board of the Pension Protection Fund (the Board), a statutory corporation established under the provisions of the Pensions Act 2004. The PPF became operational on 6 April 2005.
3. On 10 July 2009 the Board of the PPF was also conferred with responsibility as the scheme manager for the Financial Assistance Scheme (FAS). FAS provides assistance to members of eligible under-funded defined benefit schemes that started to wind-up between 1 January 1997 and 5 April 2005, where an employer insolvency event occurred between 1 January 2005 and 22 December 2008.
4. We have set out our responses to the questions raised in the consultation below.

Q1. We agree that it is appropriate to apply the TAS to schemes which are not subject to Scheme Funding.

Q2. We are satisfied with the definition of governing body and are not aware of examples where this may be inappropriate.

Q3. We are satisfied that the proposed commencement date is reasonable.

Q4. As we stated in our previous response, in order to give the profession sufficient time to prepare for adopting the principles within the pensions TAS, we would favour a period where either the TAS or GNs could be applied. We believe that in order to minimise

additional work of limited benefit to users, any period where both the pensions TAS and GNs are compulsory should be minimised.

Q5. We have some concerns about the way conclusions have been reached in relation to the cost impact of introducing the TAS. We believe that many small schemes would see an initial implementation cost increase of 10% as a significant burden. In addition, to say that because the TAS covers mainly trustee work, costs to employers will be immaterial is not necessarily correct. Employers bear the majority of costs associated with pension schemes, and wherever the employer pays the balance of costs in a scheme, the Pensions TAS implementation costs will be passed directly onto the employer. We feel it would be helpful to draw out the benefits of the Pensions TAS in relation to improved governance and resulting risk reduction, to compare these benefits with the potential costs.

Q6. We have the following comments on the wording of the TAS and accompanying analysis:

4.13 states that a Scheme Funding report cannot contribute to compliance with TAS R for decisions made during the Scheme Funding exercise. If this is the case, this might suggest that the requirements for the Scheme Funding report as set out in E5 of the Pensions TAS should be scaled down and that this information should instead be presented to trustees in a timely manner during the valuation process.

C1.10 – We would welcome clarification as to whether or not this covers advice on the implications of overriding legislation.

C1.15 states that actuarial work that “concerns winding up” is covered by the TAS. We feel that this is somewhat vague; for example, a discussion on trends in windup costs would fall under this description but in our view it would not be necessary for the Pensions TAS to apply to it. Clarifying that it applies where a scheme is planning on or going through the windup process would be preferable.

D2.4 We suggest that this refers to recent experience *if the data is available*.

D2.12 (b) refers to the “implications” of adopting the discount rates. Although some examples are given of potential implications, we feel it would be helpful to clarify what sort of implications are covered eg funding, impact on member benefits etc.

D2.17-19 We believe this represents an excellent opportunity for the BAS to give an indication of which of the available mortality projection tools actuaries should adopt.

E5.2 (d) requires an explanation of “any difference” between technical provisions and buyout liabilities. This implies that in the majority of cases these liabilities will be identical, which is not the case. We suggest this amended to “an explanation of

differences between...". This would better reflect the situation for the majority of schemes.

E5.8 It is not clear what information on cashflows is required here. Is the intended meaning that, where the actuary chooses to provide cashflows, they are broken down by category of membership?

Yours sincerely,

Stephen Rice
Chief Actuary

email: stephen.rice@ppf.gsi.gov.uk
direct telephone: 0208 633 4942