

Board for Actuarial Standards

Exposure Draft: Pensions

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INTRODUCTION

1. Prospect is an independent trade union representing over 122,000 professional, managerial, technical and scientific staff across the private and public sectors. Our members work in a range of jobs in a variety of different areas including in aviation, agriculture, communications, defence, energy, environment, heritage, industry, and scientific research.
2. As with any trade union, Prospect representatives and officers play an important role in protecting the pension entitlements of members. This can involve activities as varied as negotiating changes to pension arrangements to educating members about different aspects of pension provision to supporting members who undertake the important role of trustee to a pension scheme.
3. Representing members on pension issues requires access to basic information about the pension schemes members participate in. This is recognised by legislative requirements to disclose certain information and scheme reports to recognised trade unions as well as scheme members. Some responses to the Board for Actuarial Standard's Pensions exposure draft have suggested that the list of information to be included in a scheme funding report should be restricted. Prospect is seriously concerned about this suggestion as it would have a detrimental impact on many end users of these reports. Scheme members and their representatives rely on information provided in these reports in many different ways.

PROSPECT'S POSITION

4. Our view is that it is vital for the Board for Actuarial Standards to consider end users of actuarial work in setting technical and other standards. If the needs of users are taken into account then any reasonable analysis of the requirement to include detailed information in scheme funding reports will show the benefits outweigh the costs in the case of the vast majority of items specified in the exposure draft. Therefore we are very supportive of the decision to specify a wide range of detailed information for inclusion in scheme funding reports.

DETAILED COMMENTS

5. The current actuarial technical standards governing this work require detailed information to be included in the scheme funding report. The draft pensions standard is not imposing this requirement for the first time. Indeed if the pension standard does not specify certain information requirements then the level of information provided to scheme members and their representatives could be dramatically reduced.
6. As many responses to the exposure draft have noted the scheme funding report is now largely a disclosure requirement rather than a report on which decisions are made. A consequence of this is that members and their representatives are likely to make more use of the report than those actually defined elsewhere in

the standard as users. For this reason it is vital that the report contains enough information for members and their representatives to understand the funding position of the scheme and the results of the report. There is a large degree of asymmetry in the information available to scheme members and other stakeholders and the requirement to disclose detailed information in the scheme funding report goes some way towards addressing this.

7. There appears to be some scepticism in responses to the exposure draft about how many “informed readers” other than the defined users of a scheme funding report actually exist and make use of the information. Scheme funding reports are of great interest to Prospect’s members. Whenever changes to pension provision are proposed the scheme funding report is the key document for members in assessing the actual position of their scheme and hence the need for reform. While the wider membership may not all be fully informed readers of these reports they do rely on their union officials to interpret this information. Headline results from these reports would be fairly uninformative without further information on the basis for calculating them. Even when benefit changes are not in question scheme members are still very interested in scheme funding reports. For example Prospect members in the electricity industry voted to require their union to produce a summary of the results of the funding reports of the main pension schemes in their industry.
8. It is not in anyone’s interest to add greatly to the administrative cost of running a pension scheme and hence it is proper to assess whether the clear benefit of including certain information in scheme funding reports is outweighed by disproportionate costs in any case. In the case of the requirements under E.5.5, E.5.6, E.5.7 and E.5.9 it would seem that this is information that will have already been produced as a matter of course during the scheme valuation process or otherwise and there would be no extra burden to reproduce this in a scheme funding report.
9. In the case of E.5.8 it may be the case that smaller schemes may not have produced cash flow projections for the scheme valuation and it may be a disproportionate burden to require them to do so. In these cases it may be preferable to relax this requirement and to specify a description of future cash flows for different categories of members instead.
10. The scenario and sensitivity results mentioned in E.5.10 should be considered during the valuation process anyway and again it should not be a significant burden to require their disclosure in the scheme funding report. They help scheme members and their representatives understand the risks facing the scheme and the sensitivity of the results to the main assumptions. However it is not clear what the first bullet point of E.5.10 is referring to and some further guidance on this point would be useful.