

**Private & Confidential**

The Director  
Board for Actuarial Standards  
Financial Reporting Council  
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*Date:* 21 May 2010  
*Our Ref:* Response to BAS February  
2010 consultation on exposure draft of  
the Pensions TAS

Dear Madam

**Board for Actuarial Standards  
Exposure Draft: Pensions – February 2010**

This letter sets out Punter Southall's comments on the above consultation paper. Punter Southall provides a full range of actuarial advice, pensions consultancy and pensions administration services. Our clients are primarily large and medium sized occupational pension schemes and their employers.

**Comments on the specific issues as indicated in the exposure draft**

***1 the application of the Pensions TAS to schemes not subject to Scheme Funding  
(paragraphs 4.19 to 4.21)***

We realise that this section is primarily aimed at public sector schemes and have no comments about the application of the Pensions TAS to such schemes. However, we are concerned that the section could potentially lead to additional onerous requirements being placed on such schemes to produce documents analogous to those required under Scheme Funding but without proportionate benefit to the user. In particular we are concerned as to the potential impact on Employer-Financed Retirement Benefit Schemes ("EFRBSs"), which are currently not subject to any statutory funding requirements.

It was not clear to us whether EFRBSs are captured by the definition of "pension scheme" (and the associated undefined term 'occupational pension scheme') set out in part B of the exposure draft. We would be grateful if the BAS would clarify what is intended to be captured by this definition, in particular whether or not EFRBSs are pension schemes for the purposes of the Pensions TAS.

***2 the definition of governing body, especially examples of schemes for which the definition is not appropriate (paragraph 4.22)***

We are happy with the definition of governing body as currently drafted.

***3 the proposed commencement date for the Pensions TAS (see paragraphs 4.23 to 4.25)***

In our view the proposed commencement date for the Pensions TAS is reasonable provided the Pensions TAS is available in a final form in sufficient time to enable practitioners to prepare for its introduction. We note that the BAS intend to issue the TAS in the summer of 2010; nine months from issuing the Pensions TAS to its commencement date would be a sufficient period for practitioners to prepare themselves.

***4 the transition to the Pensions TAS from the adopted Guidance Notes (see section 5)***

Our comments on the specific proposals for each of the adopted Guidance Notes are set out below.

***GN9***

We are in favour of the suggested transitional approach. We do not believe that it is likely that practitioners will early adopt the Pensions TAS if they also have to comply with GN9. This is because it would lead to reports having to comply with both GN9 and the Pensions TAS during this transitional period leading to extra costs being incurred without any obvious benefit to the users, who would ultimately have to bear some or all of these costs. We are therefore in favour of the proposal to allow actuaries who early adopt the Pensions TAS to drop compliance with GN9.

***GN16***

We are happy with BAS's proposed approach of not determining the form of certificates where they are not determined elsewhere provided a consistent approach is adopted by BAS for all such certificates. It would be helpful if the BAS could liaise with the Department for Work and Pensions (DWP) to see if they would be prepared to enshrine a form of this certificate in legislation.

***GN19***

We note that the current version of GN19 (v4.9) contains no substantive technical content but does indicate that historic versions of GN19 still continue to apply to Scheme Actuaries in certain situations. We also note that references to GN19 were removed from legislation with effect from 6 April 2010.

We would appreciate confirmation that historic versions of GN19 do continue to apply to scheme actuaries in the situations set out in GN19 v4.9 and, if so, that they will continue to be available on the BAS website in future together with a note on the situations in which they apply once GN19 v4.9 has been withdrawn.

***GN26***

We would strongly support the maintenance of a glossary either by the BAS or the Actuarial Profession. We note that paragraph 74 of the Pension Regulator's (TPR) Code of Practice 3 "Funding Defined Benefits" refers to "the four accrued benefits funding methods currently recognised by the actuarial profession" with a footnote directing the reader to refer to GN26 for a definition. We suggest that the BAS should discuss the removal of GN26/introduction of a glossary with TPR in order that they can suitably update this Code of Practice and any other guidance they have issued that refers to actuarial terminology currently set out in GN26.

**GN28**

We consider that it is very important that the material currently in GN28 is maintained in an appropriate form and ask the BAS to ensure that their discussions with the DWP result in this outcome.

**GN34**

We are happy with the BAS's proposals in relation to this guidance note.

**GN36**

We are happy with the BAS's proposals in relation to this guidance note.

**GN49**

We are happy with the BAS's proposals in relation to this guidance note.

***5 our impact assessment and the effects that the introduction of the Pensions TAS is likely to have on actuarial information (see section 6)***

We are concerned that the introduction of the new regime could lead to "two tier work" where some work that falls within scope that is not required to be done by an actuary will be done at a lower cost by a non-actuary.

We note in paragraph 6.4 that the BAS expects the cost of transition to the TASs will not exceed 5% to 10% of the annual cost to practitioners for performing actuarial work. We would be very interested to see the BAS's evidence for this estimate. We believe that the estimate is not unrealistic and indeed think it very likely that costs will prove to be at the upper end of this range.

We note that the BAS expects that practitioners will absorb the costs of transition. However we consider that, in the current economic climate, it is almost inevitable that practitioners will seek to recover these costs from clients as much as possible. Indeed they may have no alternative. However we expect there to be benefits to users from the transition. Since many standard documents, such as the formal actuarial valuation report, are being reviewed as a result of the transition to the TASs, we are also taking the opportunity to review them with the goal of improving readability and usefulness to the user and would expect other actuarial consultancies to be doing the same.

We also note that any increased costs to clients as a result of transition to the new regime will be incurred around the same time as the introduction of both the new employer duties regime and the High Income Excess Relief Charge, both of which could also add significantly to the administration costs of pension schemes. It is also likely to be during an unfavourable economic climate. We are concerned that it could add to the already high cost of providing defined benefit (DB) pensions and could therefore contribute to the decline in provision of such schemes.

We agree with the BAS's view that there will not be significant ongoing costs as a result of the introduction of the new regime.

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

Many of the principles would appear to be better suited to one of the generic TASs rather than the Pensions TAS. We understand that the BAS is considering carrying out an exercise

once all the TASs have been introduced in order to move principles from the specific TASs to the generic TASs as appropriate and would approve this course of action.

### **Purpose of valuation report**

It is difficult from the definition of users in the exposure draft to envisage who all the potential users of a report might be. For example, at present the trustees are required by legislation to provide a formal actuarial valuation report to the company, which suggests that the company (and potentially their actuarial advisers) could be users. It is also difficult to determine the intended purpose of the formal actuarial report; for example, is it a reference document solely for the use of trustees or is it intended to be used to convey information to members?

Furthermore, is the report intended to be used by company actuaries in giving advice to the company? Often it is a key piece of information made available to company actuaries in giving advice in merger/acquisition situations and, if it is intended to be used in these situations, it is important that it is fit for purpose and contains enough detail on the methodology and assumptions used in scheme funding for another actuary to be able to determine uniquely the basis used.

It would therefore be helpful if the Pensions TAS could state clearly what it believes are the intended users and the intended purpose of the valuation report.

### **Employer advice**

We would welcome clarification from the BAS on a number of points:

Firstly whether actuaries advising employers are able to rely on work carried out by other actuaries advising the trustees. We note that for work that is not either Reserved Work or Required Work, those responsible for commissioning the work could instruct the actuary to depart from some or all requirements of the TASs; however, this is unlikely to be a practical solution. An approach which allowed a company actuary to incorporate the reports of another actuary as component reports would be a more pragmatic solution.

Secondly, whether covenant review work carried out by an actuary would be within the scope of the TASs. We believe that it should be within scope where the actuary is using covenant information to advise the trustees on setting assumptions, but not where the actuary is simply providing a report to the trustees on the strength of the covenant with no associated advice on setting assumptions. In such case, the covenant advice being delivered is not actuarial advice.

Finally, we also have concerns about the potential application of the standard to the situation where work carried out by a company actuary for the company is subsequently supplied to the trustees. Our concern is that the work might initially be outside the scope of the Pensions TAS but by dint of being supplied to the trustees fall within scope (for example, advice on bulk transfers or winding up).

### **Comments on text of exposure draft**

Our comments on specific parts of the text of the exposure draft are set out below, using the same paragraph/section references as used in the exposure draft.

#### **C.1.7**

We are concerned that this requirement is likely to lead to work being done by non-actuaries, who will not have to comply with the TASs, in order to save costs. We do not believe that this will necessarily benefit users. However, we have no specific comments on the wording.

### **C.1.11**

The wording 'any matter related to' in the principle is arguably rather wide and has the potential for possibly unintended consequences.

For example we are unsure from the present wording of this principle whether, if future Scheme Funding negotiations are referenced within other employer advice, this causes the employer advice to fall within the scope of the Pensions TAS as a component report in future funding advice. For instance, if an FIA/FFA were to mention in an employer advice letter at the time of setting the FRS17 assumptions that "the assumptions should be set bearing in mind the impact this will have on discussions regarding the Scheme Funding basis" this could be viewed as causing the employer advice letter to fall within scope.

Similarly, it is possible that an ad hoc payment to the scheme (perhaps under the clearance process) might include some negotiation in respect of implications for the next valuation and resulting contributions. We would be grateful if the BAS could clarify whether such a negotiation (being related to scheme funding) would be included within the scope of the Pensions TAS.

We tend to think that such advice should not be included within the definition of advice to the employer on the Scheme Funding valuation and therefore think that the wording 'any matter related to' should be narrowed down.

### **C.1.15**

We would be grateful if this definition could be expanded to make clear what sort of work in connection with wind-up is envisaged as being within the scope of the TAS. For example, would projections of the potential impact to members' benefits of wind-up for an ongoing scheme be within scope or does it only refer to work carried out once a scheme has entered wind-up?

### **C.1.19**

Is it intended from this principle that individual members of defined contribution pension schemes are users for the purposes of the TAS?

### **D.2.1 & D.2.2**

We are concerned about the requirement that assumptions 'used in' models satisfy these requirements. There are a number of situations where the actuary advises trustees on assumptions but where the trustees (who are not generally required to comply with TASs) have the final say. We agree that the actuary should propose assumptions that comply with these principles; however, where the trustees (or company) set the assumptions, it is difficult to see what the actuary can do beyond advising that they are not appropriate in his or her view. The definition should only refer to assumptions 'used in' models where the actuary has the duty of setting the assumptions; in other cases, it can only refer to assumptions 'proposed for use'.

### **D.2.10**

It would be helpful if the BAS could clarify this principle by giving examples of exercises that, whilst broadly similar, are not similar for the purposes of this principle: for example, accounting disclosures and scheme funding valuation results.

### **D.3.2**

Since members can effectively influence or control matters affecting benefits payable to them through the exercise of options (for example early retirement, taking a tax free cash sum) should they not also be included on the list of parties? However, we do not believe it would be practical or proportionate to seek information from members as to their likely exercise of options.

### **D.4.3**

We consider that this principle and/or the subsequent paragraph needs to be amended. At present it appears to require the actuary to enable the financial implications for individual members of setting actuarial factors at a certain level to be understood by a governing body. It is only possible for an actuary to comment in a generic sense, since the impact is likely to vary from member to member depending on their individual financial circumstances.

### **D.5.2**

We note the principle that information should be sought regarding materiality levels for accounting purposes. We assume that, if the actuary provides the final information to be used in the preparation of financial statements to the preparer and suggests at the same time that the preparer discusses materiality levels with their auditor (not having raised it before) that this should be sufficient to comply with the principle. However we would be grateful if the BAS could confirm this point.

### **E.2**

We suggest that the wording in E2 is amended to clarify whether it is intended to apply to reports produced by company actuaries in scheme funding negotiations or only to the reports produced by the scheme actuary.

### **E.3.3**

This principle is a good example of one which could be moved to one of the generic TASs (see comments above under the heading Generic vs Specific).

### **E.4.2**

We do not believe that a neutral estimate or range of neutral estimates would prove useful to users. There are already a number of other comparators for the Scheme Funding position available to users, such as the PPF's section 179 basis funding level, the transfer value funding basis, the company accounting basis and the solvency basis. In our experience, users often have difficulty understanding why there are so many different ways of valuing pension schemes and requiring results on another basis to be included is likely to confuse things further rather than clarify matters.

We also note that the definition of neutral measure in the Pensions TAS differs slightly from that set out in TAS M. We assume that this is just due to timing differences and that the definition will be amended in the Pensions TAS so that it is the same as that set out in TAS M.

In our view it is difficult to comply with parts (b) and (c) of the principle in a manner that is meaningful for the user at a reasonable cost. These requirements seem to underestimate the complexity of the information that is being required.

### **E.5.2**

It is very difficult to predict the future level of financial markets or annuity rates. Consequently any estimate of future solvency positions/scheme funding bases almost inevitably differs from the actual position, once it becomes known. As far as part (e) of this principle is concerned, we believe that a narrative describing the likely development of a scheme's assets, technical provisions and solvency position over the next three years would be much more useful to users than an estimate. We would be grateful if the BAS could give consideration to revisiting this wording.

### **E.5.5**

If company actuaries are intended to be treated as amongst the intended users of the Scheme Funding report (see comments under Employer Advice above), then it would be helpful if this list included:

- a weighted average age by liability or the duration of each member status

- a statement of the treatment of any discretionary practices;
- a detailed description of the make-up of the future contribution rate e.g. including a break down into any expense and/or and death-in-service benefits loadings

#### **E.5.6**

If one of the purposes of the valuation report is to set out information for actuaries advising companies, then it would be useful for the report to be required to provide sufficient detail of the methodology and assumptions used to enable an independent actuary to determine uniquely the basis that the trustees have used in determining technical provisions. This is particularly the case where a “yield curve” basis has been adopted, i.e. to ensure that enough points on the curve are shown.

Company actuaries can be required to give advice in merger and acquisition situations based just on the formal actuarial reports prepared by a scheme actuary. If insufficient detail has been given, then it can make it harder for the company actuary to give adequate advice.

#### **E.5.8**

We would be grateful for further clarification of exactly what is expected under this principle for smaller schemes, where it is arguably not useful for users or cost effective to provide detailed cash flows for all the different categories of scheme member. In particular we would be grateful if it could be confirmed whether it is permissible not to provide cash flows on the grounds of proportionality. We note that the wording in the exposure draft appears to place a more onerous requirement on actuaries than the equivalent wording on cash flows that appears in TAS R, which simply requires that ‘an aggregate report shall **indicate the nature** of any future cash flows being quantified, including their timing’.

#### **E.6.2**

We certainly consider it more useful for users to include a comparison between the cash equivalent transfer value basis and the scheme funding basis than a comparison on an arbitrary neutral basis. As mentioned above, we would like to see the requirement to provide a comparison on a neutral basis removed since we do not believe that it is ultimately useful for users.

Yours faithfully

*By email*

**Jane Beverley**  
**Principal and Head of Research**