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Our Ref: JM/JB/4.1

May 20th 2010

Dear Sir or Madam,

## **BOARD FOR ACTUARIAL STANDARDS EXPOSURE DRAFT: PENSIONS, FEBRUARY 2010**

We welcome the opportunity to comment on the above exposure draft.

### **INTRODUCTION TO SPC**

SPC is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPC's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPC is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

Many thousands of individuals and pension funds use the services of one or more of SPC's Members, including the overwhelming majority of the 500 largest UK pension funds. SPC's growing membership collectively employs some 15,000 people providing pension-related advice and services.

The exposure draft has been considered by SPC's Actuarial Committee, which comprises representatives of actuaries and consultants and insurance companies.

### **COMMENTS ON THE EXPOSURE DRAFT**

#### **Paragraph A.1.2**

- 1) The purpose described does not appear to fit well with actuarial information provided for accounting purposes. In particular, it does not make clear which decisions by users require sufficient information within the area of accounting, as the definition mentions only financing and benefits payable. It is also not clear who the users of actuarial information for accounting purposes are. We suggest that paragraph A.1.2 needs to be revisited, now that it has been confirmed that there will not be a separate accounting TAS.
- 2) Guidance on the meaning of 'actuarial information' is vital if users are intended to be able to read and understand the standards, as section 2.9 of the Conceptual Framework document indicates.
- 3) We have a similar comment with reference to the definitions of "measure" and "method". Our expectation is that standard GN26 terms, such as "projected unit method", would actually be

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classed as "measures" rather than "methods" in BAS terminology, and this would be confusing for users.

#### **Paragraph C.1.11**

Taking this paragraph together with the commentary in paragraph 2.19, we were somewhat surprised to read that the suggested approach to dealing with concerns over duplication of work done for employers and trustees could be addressed by, effectively, non compliance with the TAS.

We have, in any case, some practical concerns with work for the employer being within scope, because the nature of the advice to the employer will often be different to the work done by the scheme actuary. The actuary advising the employer on funding will often be giving, in effect, a second opinion and the advice could often be as much ethical in nature as technical.

#### **Paragraph C.1.15**

We understand that this is a point which BAS is already considering, but it might be appropriate to spell out what "actuarial work" includes. This point applies generally throughout the scope requirements, but is particularly relevant to this paragraph as "actuarial work for a governing body concerning winding up" could cover an extremely wide spectrum, not all of which is strictly actuarial or necessarily done by actuaries. Therefore, this paragraph leads to uncertainty as to what is and is not in scope. In our view, it would be better to describe exactly what work BAS has in mind as falling within the scope of this paragraph (such as section 143 valuations for PPF or conversion of benefits in accordance with the scheme's priority order).

#### **Paragraph C.1.19**

While the inclusion of this paragraph is entirely understandable, the implication would be that individual members of defined contribution pension schemes would become end users in terms of the TAS, since they would be relying on the pension projections and contribution calculations referred to.

#### **Paragraph D.2.1**

We suggest that the words "used in" in these two paragraphs should be deleted, i.e. it should simply read "assumptions proposed for use in". This would reflect that, if the trustees decide on the assumptions to be used, the actuary could view them as inappropriate, but they could nevertheless be used. However, where the actuary proposes assumptions, he or she should not make inappropriate proposals. We note that there are separate requirements for the actuary to state if he or she believes the assumptions used in an exercise are materially inappropriate.

#### **Paragraph D.2.3**

We are not sure that this paragraph adds anything for users to what is already set out in TAS R or in paragraph D.2.7 of this exposure draft.

It is also potentially particularly onerous, since it focuses on the appropriateness of each specific assumption, rather than whether the assumptions as a whole are materially inappropriate.

#### **Paragraph D.2.15**

The wording in this paragraph appears to be an unnecessary duplication of TAS R.

#### **Paragraph D.2.16**

We are not sure that this paragraph is necessary, taking into account that advice on the discount rate will already have covered the return on assets (see paragraphs D.2.1, D.2.2 and in particular D.2.12(a), along with D.2.13).

### **Paragraph E.3.6**

We suggest that it might be better to specify that the information which is provided “might need to include” the items stated. Using “will need to include” discourages the exercise of judgement, especially as in nearly all other areas, where suggestions are given, “might need to include” is used.

For example, one might not view it as appropriate to include a range of options for each material assumption (it might, for instance, not be appropriate to do this in respect of withdrawal assumptions or for every different pension increase assumption) or to provide information on the sensitivity of each material assumption. Giving a range and sensitivity for all material assumptions is likely to lead to too much information being presented to the user, in a way which is ultimately confusing.

### **Paragraph E.3.7**

It would be helpful to have clarification of whether this paragraph applies to advice to employers, where there is a duty to consult.

### **Paragraph E.4.2(a)**

The references to “best estimates” in earlier discussion on the pensions TAS have now been changed to “neutral estimates”. While we recognise that the new term is defined, we still find it difficult to assess whether the change in wording signifies any change in underlying expectations. In particular, we do not consider that the definition of neutral estimate alleviates any of the practical concerns, as suggested in paragraph 3.53.

Additionally, while we agree that a neutral estimate should be given, if requested, it is not clear to us why one should always have to be provided. We believe that the comments in paragraphs 3.48 and 3.49, regarding the needs of users, do not recognise this point – users are free to request valuations on different bases from their actuary if this is of interest. Certainly, we would not expect the provision of a neutral estimate to benefit trustees in the way suggested in the exposure draft, although we would expect it to generate disagreement among actuaries about what is intended. We note that it appears that very few trustees responded to the consultation.

We observe, in particular, that the provision of a neutral estimate may not be practical in relation to some demographic assumptions. For example, the possibility of members withdrawing from pension schemes or exchanging pension for cash at retirement is often ignored, simply because it is prudent to do so and the likely incidence cannot be estimated easily, or only at additional unnecessary cost. Providing a neutral estimate in relation to these assumptions would be of little or no benefit to most users, but would involve additional costs.

We find the argument, that costs in providing a neutral estimate will arise in any case under a sensitivity analysis, unconvincing because a sensitivity analysis does not require the production of a new set of assumptions, which would be needed to produce a neutral estimate. Nor do we agree that the neutral estimate would not be calculated to the same level of detail as the prudent estimate. It is important to note that the actuary’s neutral estimate could be very significant for the Scheme Funding process, as it would effectively set the actuary’s view as to the minimum acceptable level of contributions. Whilst paragraph 3.51 makes clear that BAS does not view funding negotiations as being relevant to its standards, these are nonetheless practical realities. Therefore, the actuary is likely to calculate the neutral estimate in as much detail as any other estimate, and ensure that all aspects of its determination and uncertainty are properly communicated to the user.

### **Paragraph E.5.2(e)**

We are not sure what benefit is envisaged in providing an estimate of the amount of scheme assets and technical provisions in three years’ time, as opposed to the funding or solvency levels, which would be relevant. Whilst the funding and solvency levels can be estimated with some degree of precision, on particular assumptions and contribution levels, the assets and technical provisions cannot, due to uncertain cashflows, and to include such an estimate would potentially be misleading for users.

We also suggest that the reference to “no later than three years” needs to be revised as this would appear to present the opportunity to illustrate the position the day after the valuation date, say.

#### **Consultation Question 1**

We have no comments.

#### **Consultation Question 2**

We agree with the definition of “governing body”.

#### **Consultation Question 3**

We agree with the proposed commencement date for the Pensions TAS, providing it is finalised within the proposed timescale.

#### **Consultation Question 4**

We agree with the proposal at paragraph 5.3, relating to GN9. Generally speaking, we view as positive attempts by BAS to reduce the burden of complying with multiple regimes of standards. In this light, we also suggest that GN49 should be dis-applied with effect from April 6<sup>th</sup> 2010, given that reference to it in legislation ceased at that date and there are now generic standards, which apply to advice given in these areas.

#### **Consultation Question 5**

It is important to recognise that transitional costs will at least in part be passed on to clients, in the same way as on-going costs.

We do not agree with the statement in paragraph 6.9, that the TASs will not result in any significant additional costs for Scheme Funding assessments. The requirement for neutral estimates would be an entirely new exercise, which will add to costs. Further, in the medium term, actuaries are faced with the prospect of complying with multiple compliance regimes in relation to a single Scheme Funding valuation, which will inevitably add to costs.

The costs of complying with the TAS regime will be proportionately higher for smaller pieces of work, and the pensions sector in particular will have many smaller pieces of work covered by the TASs, if TAS P is implemented as proposed. We urge reconsideration of the impact of bringing smaller pieces of work, such as certain factor reviews, within scope of all generic TASs, inevitably reducing the value for money, which users will receive when commissioning such work. Even if there is no change to the documentation sent, there will be costs in simply considering some 70 principles before sending the final report.

#### **Consultation Question 6**

In relation to paragraphs 3.43 and 3.44, we believe that the proposal in the earlier consultation, to make it clear that the only intended user of PPF levy calculations is PPF (thus meaning that many of the requirements of generic TASs and the Pensions TAS would be deemed immaterial) was useful. Providing such clarity would mean that other users are not provided with unnecessary information relating to matters over which they do not need to make a decision.

We have no other comments on this question, which have not already been addressed in our earlier comments.

Yours sincerely

John Mortimer  
Secretary