

Consultation Response

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Prepared for: BAS
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Transformations: Exposure Draft

Introduction

This paper sets out Hewitt's response to BAS's "Transformations" exposure draft. If you would like to discuss this response please contact Peter Williams.

Our comments relate to the pensions aspects of the consultation. Hewitt does not provide insurance consulting advice and we have not commented on the insurance aspects.

General comments

We are disappointed that BAS is pushing ahead with a separate transformations TAS, despite an almost unanimously negative response to a specific question on this point. We suspect that some of the remaining problems we have identified below result from attempting to apply principles based on insurance exercises to pension issues. In addition, this approach leads to unnecessary complexity in the standards and potential for confusion, which in turn increases the possibility of a detrimental outcome for users of actuarial work.

We do however agree that most of the principles should be included in a Technical Actuarial Standard.

We were confused by the comments made in paragraph 2.27 of your analysis of responses which suggest that it may be necessary to include information which is not **material** in some circumstances. However, we are pleased that the exposure draft includes the standard wording found in other TASs, at paragraph B.1.2, which confirms that only a failure to follow a principle which has a **material** effect is a departure from the standard.

Commencement date

The proposed commencement date, of 1 October 2011, appears reasonable provided the final standard, together with the examples which are anticipated to accompany it, are published at least six months in advance of this date.

Impact assessment and likely effect of the new standard

We agree that much of the actuarial work that is within scope of the Transformations TAS already substantially meets many of the requirements.

We think the TAS should ensure that work falling within its scope remains of an appropriately high standard and additional costs should be minimal, provided some of the inappropriate requirements outlined below are addressed.

Comments on the text

A.1.2 – The words "where applicable" should be included after "including" and before "information on cash flows".

Neutral – We have significant concerns over the use of this term, which have been highlighted in our responses to previous consultations. However, in this exposure draft the definition can simply be removed as it is not referred to in the TAS itself. ('Actuarial factor' is another defined term which is not used and should be removed.)

D.2.1 – We do not think that the selection of assumptions should be based on the interests of any parties – this might be an example of a principle which applies in insurance being ill suited to pensions. The actuary's approach should certainly not be significantly influenced by the interests of the sponsoring employer – as a minimum, we suggest that the sponsoring employer to a pension transformation be added to the list of examples "in which it might be proper to give less weight (and possibly none at all)".

D.4.3/D.4.4 – We think these principles should be combined to focus solely on explaining any changes to the risks faced by beneficiaries. Setting out those risks which are unaffected by the transformation should not be a requirement.

D.4.6 – We previously noted the actuary is only responsible for advising on risks that relate to beneficiaries in the scheme he advises. Changes made to the principles set out in D.4.3 and D.4.4, from the wording proposed in the previous consultation, address this point by removing the reference to members indirectly affected. Unfortunately, the additional requirement set out in D.4.6 raises uncertainty and this should be removed – this might be another example of a principle which applies in insurance being ill suited to pensions.
