

Response to Exposure Draft: Transformations issued by BAS dated June 2010

I am responding to the above consultation document on behalf of the Pensions Actuaries of Scottish Life. We provide Scheme Actuary services to the Trustees of around 300 small pension schemes.

The consultation document states in 1.5 that the aim of the proposed Exposure Draft is to reflect a focus on the impact that a transformation may have on beneficiaries, which BAS considers is different in principle from the management of a pension scheme. UK pension schemes operate under Trust Law and the Trustees obligation is to operate the scheme in accordance with the scheme rules in the interests of the members. Consequently, it is our opinion that the Trustee's interests and the beneficiaries' interests in considering a transformation of a pension scheme are the same.

For the beneficiaries of any information, knowing what they may expect to receive from their actuary is fundamental to them being able to judge whether the advice their actuary gives is sufficient and reliable. Separating those requirements over a number of BAS documents will make it more difficult for the beneficiaries to judge this, rather than simpler. We continue to believe that any pensions related Transformation principles should be incorporated in a Pensions TAS with all other pension related principles. It would be a simple task to highlight any special consideration resulting from Transformations in a specifically named section of such a TAS, just as the specific requirements of a part 3 valuation are covered by a named section of the proposed TAS- Pensions. We note that section 2.22 states that all work covered by the scope of the Transformation TAS is also within the scope of the relevant Pensions TAS. This reinforces our view that beneficiaries would find it simpler if all the pensions principles were within a single Pensions TAS.

Responses to specific questions:

- 1) A proposed commencement date of 1 October 2011 appears reasonable.
- 2) It is assumed that the reference to the Insurance TAS is a mistake by BAS, and that the question should be considered in relation to the Transformation consultation.

In our opinion, to provide information on fairness will significantly add to the costs of carrying out a pensions transformation. In particular BAS has not justified the statement in 6.6 that, "...the percentage increase in costs will be modest". For smaller pension schemes in particular the increased costs could be significant.

- 3) Comments on the text:

A1.2 defines the purpose of the standard as being to assist "users". This is contrary to the statement in 1.5 that the reason for a separate Transformation TAS is to focus on the beneficiaries.

C1.5 and C1.6, refer specifically to transfer or modifications "without the consents of those members". This appears to exclude situations where pension scheme members consent to a bulk transfer or modification. Is it BAS' belief that Trustees considering such a situation but with the intention of requesting members consent do not require the same information/advice from their actuary as they would if member's consents were not being sought?

D2.1 uses the phrase “shall place proper emphasis”. Whilst BAS state in D2.3 that “proper emphasis” is a matter for judgement”, they should consider how that phrase might be interpreted in a court. We would suggest that altering this to “shall consider” would be better, and is more amenable to the exercise of judgement, given that D2.2 will require the documentation of this consideration.

D4.3 relates to the disclosure of material risks, however D4.4 requires an indication of how these risks “are affected”. By definition a risk implies uncertainty, whereas this phrase implies certainty. Consequently, we suggest that this phrase be altered to “might be affected”.

D4.12 (as explained in D4.13) deals with the effect of a change on assumptions in the interests of beneficiaries. It seems to us that this is not a separate principle but rather an extension of the requirements of D4.10.

D4.16 states that the actuary will give his opinion on the fairness of the opinion. Section 3.41 of the Exposure Draft states that “there is no requirement to assess fairness”, just to give “information that would assist in an assessment”. As such D4.16 is inconsistent with the principles of the TAS and should be removed.