

From: [Derek Benstead](#)
To: [basnovember07](#);
Subject: Towards a conceptual framework
Date: 28 January 2008 22:17:17

Dear Sir

I had hoped to attend a meeting of the North West Actuarial Society on 30 January, at which the paper is to be presented. Unfortunately I need to be elsewhere, so instead I am making some brief comments by email.

I am a scheme actuary with 10 years experience. My comments relate only to pensions issues.

In 6.11 - 6.25, you distinguish "valuation" and "planning". I have been making a similar distinction in my reports to trustees on setting actuarial assumptions for the statutory funding objective. Unsurprisingly, your use of words to describe the issues is different to mine. Nevertheless there is an important distinction between calculations which hypothesise the reinvestment of the scheme assets in some way (such as annuities, matching bonds, payment of transfer values) and calculations which assume the current and intended investment strategy is maintained. The first kind is essentially your definition of "valuation" and the second kind your definition of "planning". No doubt clients will need educating in the use of words you propose. But the distinction is an important one to explain to clients to help them understand the uses of different kinds of calculations. It is a helpful distinction to make and I strongly support this section of the consultation paper.

Re 6.25, the bullet points are matters of fact, not matters of opinion! In a paper that seeks to use words with precision, this is a small but important point to mention.

In 7.14 – 7.16, you use the term "market consistent valuation" several times. I would like to make a very strong request that you promote the alternative phrase "bond market consistent valuation". For it is only bond market data that is used in a so called market consistent valuation. Inserting the word "bond" in front of "market consistent valuation" is very illuminating, it creates a term which explains itself. Without the word "bond" included, "market consistent valuation" is an unhelpful term. The market(s) with which the valuation is consistent is not made clear. The temptation for the user of the advice is to believe that such a valuation is consistent with the market value of any kind of asset, whereas it is only consistent with the market value of bonds. The term "bond market consistent valuation" immediately makes it clear that the liability figure is related to the bond market and no other, and indicates that the liability figure can be expected to move with changes in the bond market. You have been very careful in your report to set up a clear and well defined use of words. Here is one place where a very simple but significant improvement can be made. For another example, in 8.26, a limit on the maximum assumed rate of return equal to the yield on a class of corporate bonds is NOT a limit which varies with the prevailing markets, plural. It is a limit which varies with the corporate bond

market only. A limit which only varies with one market from a universe of several is very nearly as inappropriate as a fixed 5% p.a. limit. This is another place where more careful use of words is appropriate and illuminating. In 8.26, simply remove “the prevailing markets” and replace it with “the corporate bond market” for an accurate statement which self expresses its derivation and limitations.

I hope these comments on the use of language are helpful.

Yours sincerely

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