



TAS 300 consultation 2023

Isio's response
04 August 2023

isio.

Isio's view

This document is Isio's response to FRC's consultation on Technical Actuarial Standards for Pensions, dated May 2023. We have set out our overall comments below and responded to the specific questions asked in the consultation document in the 'Isio's Responses' section of this document.

We are broadly supportive of the changes proposed to TAS 300 but note that we have a strong view that all technical actuarial standards should remain principles based and provide sufficient scope for actuaries to adopt proportionate approaches to advice. Therefore, we do have some concerns.

The changes made to TAS 100 were described as adding little additional burden to practitioners. However, we have not found this to be the case in practice. There has been a substantial, additional administrative burden, which we do not believe has improved users' experience. It adds unnecessarily to the cost of actuarial advice and risks obscuring the material aspects of the advice. We are concerned that the same problems may occur as a result of some of the proposed changes to TAS 300.

We are concerned to ensure that TAS 300 does not exceed its scope and stray into areas already covered by TAS 100 and the professional standards promulgated by the IFoA. For example, we consider that most, if not all, of the provisions of P5.1 are not technical actuarial work and other provisions (eg P5.2) appear to overlap with similar provisions in TAS 100.

We are also concerned about the potential expansion of TAS 300 to cover advice to sponsors of pension schemes. For example, the scope of the funding and financing section has been expanded beyond legislative requirements. The scope of advice to sponsors is often narrower than envisaged by the provisions in Section 2 of the TAS. We believe that the additional cost of compliance with the TAS is unnecessary and may dissuade users from taking otherwise useful advice.

Our overarching concern is that the 'must' requirements in the TAS could lead to actuaries being unable to provide appropriate levels of detail in advice, increase costs and reduce understanding for users. Ultimately, this will lead to users not taking advice and a, consequent, reduced quality of pension scheme operation for members.

We have also answered the consultation questions covering TAS 310: Collective Money Purchase Schemes. However, while we agree that the actuarial work surrounding these schemes is substantial and important, we are not sure that TAS 310 is necessary yet, for two main reasons:

- The CMP market is very new and, given Government support in this area, may broaden and develop very quickly. As yet, it is difficult to say what the key areas for actuarial standards might be.
- Government and the Pensions Regulator are heavily involved in development of CMPs and so this area is heavily regulated already. This suggests that the areas where actuarial standards are needed may end up being quite narrow, depending on how legislation and regulation proceed. For this reason, a broad actuarial standard risks overlapping work already covered by regulations or the authorisation regime and so will add unnecessary duplication and cost. It could even create conflicting requirements in the light of experience.

For these reasons, we believe there is no current need to publish a specific TAS on CMPs and it would be appropriate to wait until the market develops. Current professional and technical actuarial standards (eg TAS 100) should suffice until then.

Please feel free to contact us about our response.

Key contacts are:

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Isio's responses

1. What are your views on the proposed changes to the scope of TAS 300? Are there any other areas of pensions work that you consider to be inadequately covered by TAS 300 and should be included?

We believe it is sensible to postpone changes to the funding and financing section until the new funding code is released. In that vein, we believe that provisions in the scope in relation to scheme funding and financing should remain unchanged for the time being. All provisions on scheme funding and financing can be reviewed together once the detail of new funding regime becomes clear.

In particular, the scope in relation to funding and financing has been broadened beyond legislative requirements. We believe the current scope should remain as it is. This can be amended, if necessary, when the detail of the new funding regime becomes clear. In any case, there is likely to be no need for a practitioner to comply with all of the provisions of Section 2: Scheme funding and financing when advising a scheme sponsor. The scope of such advice may be much narrower than envisaged by the wording of the TAS. In that case, compliance with the TAS might add unnecessary costs or mean that such advice is not even sought. Neither is a good outcome.

If the proposed wider scheme funding and financing scope is adopted, it would be necessary to revise some of the Section 2 provisions to ensure they are consistent with the wider scope of work covered.

2. Do you agree our intention to defer any changes to requirements under scheme funding and financing until there is greater legislative certainty? Do you have any other specific concerns in relation to provisions on scheme funding and financing that you believe require addressing over a shorter period?

Yes, we agree with this approach. However, as noted above, some of these provisions would need to be revised if the wider scope for scheme funding and financing work is retained.

We agree with the proposal to add clarification to funding valuations and future changes in factors and the impact on funding of a future review of factors in provision P2.9.

Actuarial factors

3. What are your views on the proposed changes to TAS 300 in relation to the frequency of review of the actuarial factors? What are your views on the proposed changes to TAS 300 in relation to the timing of review of actuarial factors?

We agree with the additional of provision P3.1 on communication of the timing of actuarial factor reviews.

However, we do not believe that provision P3.2 is helpful or necessary. New provision P2.9 is sufficient to cover the impact of changing factors on the funding position of a scheme and P3.1 covers advice on the timing of future actuarial factor reviews, which could refer to the next scheme funding assessment as necessary.

Given that the timing of a factor review is often a decision for the scheme trustees, (and sometimes the scheme sponsor), the practitioner cannot dictate the timing, only advise. TAS 300 should reflect this position.

4. Do you consider the proposed changes to Section 3 would enable decision-makers to reach a fully informed view in setting actuarial factors?

We do not agree that a comparison between insured annuities and long-term funding objectives and the CETV basis in the review of commutation factors (P3.4) should be required. Some or all of these comparisons may be useful in the circumstances of a particular scheme, however, this is not always the case, and the appropriate comparators will depend on each scheme's individual circumstances. It would be helpful to include these comparisons in TAS 300 as examples - the current draft seems to suggest such comparisons are required in all circumstances.

We agree that P3.9 should be added. However, the 'alternative view' referred to in P3.9 isn't well explained when read independently from the consultation document. This needs to be expanded upon as per 2.32 in the consultation document.

Overall, we are concerned that the current form of Section 3 attempts to achieve changes that have already been achieved through the publication of the IFoA's thematic review and that the impact of Section 3 as drafted will be to reduce the ability of actuaries to proportionately advise trustees on 'interim' updates to factors in light of evolving market conditions and experience.

5. Do you consider that the remit of TAS 300 includes specifying how actuarial factors are set, either in relation to the value for money members should get from cash commutation or in making allowance for future changes to investment strategy in CETV factors? Please explain your rationale.

No. TAS 300 should remain a principles-based standard which does not dictate to practitioners how actuarial factors should be set. It would be very difficult for the FRC to deliver a 'one size fits all' approach when this would affect many different pension schemes in different circumstances.

The basis for setting actuarial factors is particularly scheme-specific, based on individual scheme rules and history. In many cases, the factors are set by trustees who are not governed by TAS 300. Hence, the remit of TAS 300 could not extend to how actuarial factors are set in those circumstances.

6. Are there other provisions relating to actuarial factors which you believe should be introduced?

No.

Bulk transfers

7. What are your views on the proposed provisions in section 5 in relation to bulk transfers? Do you think that the proposed provisions would ensure the actuarial advice given to decision-makers would allow them to be fully informed when considering potential bulk transfers?

We have some areas of concern with the draft TAS, as follows:

Superfunds are a new and developing area of work. There is currently no specific legislative regime for them, though this may come in due course. Currently, regulatory oversight of these vehicles and transfers to these vehicles is set out in Pensions Regulator guidance. Hence, the Superfund market and its regulation are subject to rapid change. It is difficult, therefore, to cover advice in this area in TAS 300. It may be that the specific TAS 300 references to Superfunds are too restrictive or too permissive. Either way, this would be unhelpful. We believe a more helpful approach for TAS 300 for the time being would be to concentrate on provisions for bulk transfers in general and leave out Superfund specifics unless and until a formal regulatory regime is put in place. TAS 100 and the IFoA's Actuaries Code and

professional guidance should provide sufficient guidance to practitioners in the meantime.

Our second area of concern relates to insurance buyouts. Many of these are preceded by a "buy-in", where trustees invest in a bulk annuity policy before then going on to buy-out at a later date. The due diligence work associated with choosing an appropriate insurer and the alternatives considered happens prior to the buy-in. It would be helpful if this is made clearer in the TAS.

Finally, some of the provisions in section 5: Bulk transfers appear to extend the scope of TAS 300 beyond technical actuarial work. Some of these areas (eg most of the provisions of P5.1) relate to wider due diligence, which we do not consider to be actuarial advice. Other provisions (eg P5.2) appear to overlap with similar provisions in TAS 100. We believe that such provisions should be re-written or removed.

8. Do you consider that the proposed changes to TAS 300 on modelling work relevant to superfunds would help mitigate the risks associated with pensions practitioners' lack of familiarity with features of the modelling required?

.As noted above, we do not believe this issue should be covered by TAS 300 until a formal Superfund regulatory regime is in place.

9. Are there other provisions relating to bulk transfers which you believe should be introduced into TAS 300?

No.

Collective Money Purchase questions

10. Do you have any comments on our intention to have an effective date for TAS 310 of within one year of the first CMP scheme being in operation? Is there an alternative timing that would be more appropriate? Please provide any supporting evidence for alternative timings.

The CMP market is very new and, given Government support in this area (eg proposals to expand CMPs to include multi-employer and decumulation-only schemes), the market may develop very quickly. As yet, it is difficult to say what the key areas for actuarial standards might be.

The Government and the Pensions Regulator are heavily involved in the development of CMPs and so this area is heavily regulated already. This suggests that the areas that need actuarial standards may end up being quite narrow, depending on how legislation and regulation proceed. For this reason, a broad actuarial standard risks overlapping work already covered by regulations and the authorisation regime and so will add unnecessary duplication and cost

For these reasons, we believe there is no need to publish a specific TAS on CMPs until the market develops. Current professional and technical actuarial standards (eg TAS 100) should suffice until then

11. Do the proposed provisions provide sufficient clarity of requirements for practitioners to set central estimate assumptions? Please set out any areas of setting CE assumptions you believe require further provisions, including reasons for these.

The provisions ported over from TAS 300 apply equally to CMP schemes and so it's reasonable to repeat them in TAS 310.

The term "central estimate" in respect of CMP schemes is defined in the legislation (Reg 2 of the Occupational Pension Schemes (Collective Money Purchase Schemes) regulations 2022). The definition in the TAS 310 glossary is different. These two definitions should be the same to avoid confusion. If you wish to expand beyond the definition in the Regulations, it would be better to include such an expansion in the main text of the TAS and offer it as an example, in line with overall principles based guidance.

Other than this definitional point, the requirements are reasonable.

12. What are your views on the proposed provisions in relation to CMP modelling? Do you expect the proposed requirements on communication to support intended users in making relevant decisions based on modelling? Do you believe there are further items where additional requirements would be appropriate?

We support the use of stochastic models in relation to CMP schemes. However, we are not clear that this should be mandated by TAS 310. Rather, this decision should be better left to the practitioner. As is noted in the consultation paper (para 3.18), FRC recognises that stochastic models may not be needed in all circumstances. In these circumstances: *“the FRC expects practitioners to demonstrate that their alternative approach satisfies P3.1 and P3.2 and the reliability objective”*. We would support this latter approach (assuming the phrase “including probabilities” is removed from the first sentence of P3.2).

13. What are your views on the proposed provisions in relation to Scheme design? Do you envisage any difficulties in meeting the requirements of these provisions. Please provide details to accompany your response.

The provisions appear onerous. In particular, they appear to apply to situations where a potential CMP sponsor is only considering the concept and so approximate methods and analysis would be appropriate. For example, the proposed requirement to use data that is *“as comprehensive as possible”* could be changed to something like: *“appropriate to the nature of the work”*.

Provision P3.4 requires a practitioner to consider whether changes to the modelling approach or assumptions could lead to significantly different modelling results. This appears to repeat some of the requirements of TAS 100 and so is not needed.

Provision P3.10 requires a practitioner to explain downside scenarios. It would be reasonable to include upside scenarios here too.

14. What are your views on the proposed provisions on completing assessments of scheme viability and certifying soundness? Do you consider it is appropriate to require practitioners to consider areas beyond those outlined in legislation when certifying soundness? Please give reasons for your response.

We agree that the scheme actuary should be able to consider a wider range of factors when considering soundness of a scheme design than is laid out in the regulations. However, as far as the TAS is concerned, these should be restricted to actuarial factors. We suggest that provision P5.1 should be amended to reflect this.

We also believe that it may be unnecessarily restrictive to include a list of example factors in the TAS, so we suggest the list in P5.1 is removed. In any case, P5.1a introduces the term “Intergenerational fairness”. This term is not defined. If the P5.1a list is to be retained, it would be helpful to define this term.

We believe requiring the scheme actuary to review “all member communications” in P5.2a is unnecessarily broad as this would lead to practitioners reviewing communications with no actuarial content.

As mentioned elsewhere, we do not believe that stochastic modelling should be mandated, hence we believe the phrase “stochastic modelling” in P5.3 should be changed to refer to “modelling”.

15. Do you agree that the considerations for a practitioner certifying scheme soundness via a viability certificate are the same as those a practitioner should communicate to trustees in their own consideration as to whether the design of the scheme is sound for their viability report?

No, not necessarily. As noted elsewhere, we believe the actuary's own considerations ought to be limited to actuarial factors as far as TAS 310 is concerned. Whereas trustees need to consider a wider range of factors. This difference should be reflected in the practitioner's communication to the trustees.

16. Are there any other areas in relation to soundness (including practitioners' communications of their work on soundness) which require further standards? Please provide as much detail as possible.

No. As noted elsewhere, we do not believe that the TAS should contain an explicit list of factors to consider.

17. What are your views on the proposed provisions on actuarial valuations for CMP schemes? Are there other key areas of judgement beyond the central estimate assumptions? Are there further areas you would expect to be included? Please give reasons for your response.

Provision P6.1a requires the comparison of valuation assumptions with those adopted for certifying soundness in the first gateway test. Such a comparison would quickly become irrelevant as market conditions and the demographics of the scheme membership develop over time. Comparison with the assumptions used in the previous valuation would be more relevant.

Provision 6.1c seems to suggest that any post valuation experience that has an impact on the benefit adjustment should be considered. It is likely that this situation would be common. The impact of post valuation experience would change from day to day and so make finalising a valuation unnecessarily difficult. Perhaps a better way to frame this requirement would be only to consider post valuation experience that would have a "material" impact on the benefit adjustment itself.

18. Do you agree the required content of the valuation report set out in Appendix A is reasonable for CMP schemes? Is there further content which should be included?

We agree with the required content.

19. What are your views on the proposed provisions in relation to factors for CMP schemes? Do you envisage any issues complying with provision P7.4 regarding selection risk? Are there certain groups of members you believe this may disadvantage? Please provide reasons for your response.

Provision P7.4 concerns selection risk. Selection risk is an issue for all pooled vehicles, including Defined Benefit as well as CMP schemes. This risk may be relevant when setting individual factors, but it also may be relevant when carrying out valuations (and, potentially, 'soundness' considerations for CMP schemes). We believe that it is unnecessary to refer to this specific risk only where individual factors are being set for CMP schemes, given it applies more broadly. The risk identification provisions of TAS 100 should be sufficient to cover the issue. So, P7.4 can be removed.

Impact Assessment

20. Do you agree with our impact assessment? Please give reasons for your response.

We agree that there is a need to separate TAS 300 and TAS 310, and that it is helpful to formalise the outcomes from IFoA Thematic Reviews in TAS 300. However, the FRC must ensure that TAS 300 and TAS 310 remain principles based and do not become prescriptive, particularly as the outcomes of the IFoA's reviews have been widely adopted already, prior to the TAS 300 update.

The FRC must ensure that any new version of TAS 300 does not create additional unnecessary work for practitioners, especially bearing in mind the proportionality aspect which underpins the TASs and our experience with the impact of the TAS100 update.

Finally, we believe that it is important that TAS 300 does not seek to prescribe outcomes that should fall under the professionalism requirements set out by the IFoA ethical guidance and that the principles based guidance should allow and require actuaries to actively exercise their professional judgement. We are particularly concerned about the creation of unnecessary additional work as this has been our experience of implementing the recent changes to TAS 100.

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