



BOARD FOR ACTUARIAL STANDARDS

PENSIONS TECHNICAL ACTUARIAL STANDARD

**ANALYSIS OF RESPONSES TO THE FEBRUARY 2010
EXPOSURE DRAFT**

OCTOBER 2010

CONTENTS

	<i>Page</i>
I Analysis of responses	2
1 Introduction	3
2 Responses to the exposure draft	6
3 Changes to the text	11
4 Transition from the actuarial guidance notes	16
II Tracked changes from the exposure draft of the Pensions TAS	19
Appendices	45
A Members of the Board for Actuarial Standards	45
B List of respondents to the February 2010 exposure draft	46

PART I

ANALYSIS OF RESPONSES TO THE FEBRUARY 2010 EXPOSURE DRAFT OF THE PENSIONS TECHNICAL ACTUARIAL STANDARD

1 INTRODUCTION

CONSULTATION AND RESPONSES

- 1.1 The Board for Actuarial Standards (BAS) is responsible for setting technical actuarial standards in the UK: it is an operating body of the Financial Reporting Council (the FRC)¹. In February 2010, it published an exposure draft of its Specific Technical Actuarial Standard (Specific TAS)² on Pensions (the Pensions TAS).
- 1.2 The consultation period ended on 21 May 2010. A total of 30 public responses³ were received (see Appendix B). 21 of the responses were from actuarial firms and insurance companies. Five responses were from professional organisations. We also received several confidential responses. The Financial Reporting Council's Actuarial User Committee provided input to the consultation. After the consultation closed we met with a number of practitioners and users to discuss specific points relating to the responses. We thank all those who contributed.

SUMMARY

- 1.3 In finalising the text of the Pensions TAS we have taken account of the comments we received in response to the exposure draft, as well as other comments that have been made to us in meetings. We have also considered the responses to other consultations.
- 1.4 Respondents to the exposure draft generally supported the direction of the draft and the principles proposed in it. The principles in the Pensions TAS are substantially the same as those that appeared in the exposure draft, although the text has been amended in places in order to improve clarity.
- 1.5 There were three substantive areas of concern to practitioners:
- There was demand from practitioners for more clarity on what constitutes actuarial work. Although the precise delineation will always remain a matter for professional judgement, we have nevertheless added text which is intended to clarify our intentions. Further background to our thinking is in *Pensions Technical Actuarial Standard: Significant Considerations*, which is being published at the same time as the Pensions TAS.
 - Many practitioners did not like the proposed requirement to show a neutral estimate of Technical Provisions in Scheme Funding exercises, on the grounds that a neutral estimate was insufficiently defined, would be onerous to calculate and would not assist users. We did not accept their arguments, but we have redrafted the text to provide more clarity on how to calculate a neutral estimate of Technical Provisions.
 - Several practitioners felt that the proposals for the contents of the Scheme Funding report were too onerous and that the BAS should not impose

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

² See section 8 of the BAS's *Scope & Authority of Technical Standards*.

³ The responses are available at <http://www.frc.org.uk/bas/publications/pub2248.html>.

requirements in addition to those imposed by statute. We have removed some of the requirements that were proposed in the exposure draft. The requirements in the Pensions TAS are less prescriptive than those in the adopted guidance note GN9 (*Funding Defined Benefits – Presentation of Actuarial Advice*).

- 1.6 Section 2 of this paper covers the major issues raised in response to the consultation as well as some general points. Section 3 explains the changes that we have made to the text that appeared in the exposure draft. Section 4 considers the transition from the existing technical guidance notes.
- 1.7 Part II contains the final version of the Pensions TAS, marked up to show changes from the exposure draft.

ASSESSMENT OF COSTS AND BENEFITS

- 1.8 Section 6 of the exposure draft presented our assessment of the costs and benefits associated with the introduction of the Pensions TAS. We thought that compliance with the TASs in pensions work might result in a slight increase in the longer term cost of carrying out actuarial work but that the increase would not have a significant effect on the costs to users. We also expected that the cost of transition to the TASs would not exceed 5% - 10% of the annual cost to practitioners and firms of performing actuarial work for governing bodies and trustees for most schemes. We considered that the benefits would justify any additional costs.
- 1.9 Practitioners generally agreed with our assessment of the costs of complying with the TASs. However several of them thought that the transitional costs, particularly for smaller schemes, would be significant. Some respondents argued that these costs could not easily be absorbed by practitioners and that they would in practice be passed onto users.
- 1.10 Some practitioners agreed that the long term costs of compliance would not be significant as many of the principles are best practice. However some others felt that the long term costs could be significant, particularly for smaller pieces of work.
- 1.11 We note the concerns expressed by practitioners, but continue to consider that the benefits will justify any additional costs. In particular we consider that additional long term costs should not be significant if the TASs are applied proportionately.

COMMENCEMENT DATE

- 1.12 In the exposure draft we proposed that the Pensions TAS should apply to work within its scope performed for aggregate reports completed on or after 1 April 2011.
- 1.13 Some respondents preferred a commencement date in July 2011 to one in April, because a large number of Scheme Funding exercises have effective dates in March or April 2010 and must therefore be completed by June 2011. Some respondents also suggested that there was a good case for deferring the commencement of the Pensions TAS until practitioners are accustomed to complying with the three Generic TASs.

- 1.14 However most practitioners thought that the proposed commencement date was reasonable provided that the TAS was published promptly and without significant changes from the exposure draft. We have therefore decided that the commencement date of the Pensions TAS will be 1 April 2011.

REVIEW OF THE PENSIONS TAS

- 1.15 We recognise that our TASs may need amendment after they have been in operation for a period. We are developing mechanisms to obtain feedback from practitioners and users of actuarial information, and will conduct a formal review of each TAS at least every four years. At least every two years we will consider whether immediate changes are required.

2 RESPONSES TO THE EXPOSURE DRAFT

INTRODUCTION

2.1 In this section we summarise some of the most significant comments that we received on the exposure draft, and our reactions to them. In considering the responses, we have carefully considered the feedback from both users and practitioners. In brief:

- Respondents felt that there was too much uncertainty about what constitutes “actuarial work” for the purpose of determining whether work is within the scope of the Pensions TAS.
- Many practitioners objected to the proposal to show a neutral estimate of liabilities alongside a prudent estimate in Scheme Funding exercises.
- Some practitioners felt that the proposed contents of the Scheme Funding report would result in unnecessary work with little benefit to users.

DEFINITION OF ACTUARIAL WORK AND ACTUARIAL INFORMATION

2.2 Several practitioners thought that the proposed text was insufficiently clear about what constituted actuarial work. They wanted examples of what work is within the scope of the TAS and what work is not.

2.3 Some respondents noted that actuaries can be involved in a wide range of work for complex exercises such as a pension scheme wind-up. Some tasks are clearly actuarial work, such as actuarial calculations to estimate the cost of buying out benefits or to illustrate how members’ benefits might be affected. However others are not. For example, we do not consider project management, data cleansing and reconciling guaranteed minimum pensions with HMRC to be actuarial work.

2.4 One respondent suggested that it was not clear whether trustee training was actuarial work when it concerns matters which are clearly actuarial work, such as Scheme Funding exercises. We consider that trustee training does not constitute actuarial work as it does not usually involve providing the trustees with actuarial information which they will directly use to make decisions. We are aware that bespoke trustee training might be organised around a specific exercise such as a Scheme Funding exercise and that the presentation material might include information such as the sensitivity of results to assumptions, which is then used by trustees to make a decision. We consider that this information might be a component report of the aggregate report for the Scheme Funding exercise but that the training would not itself constitute actuarial work.

2.5 In the final text we have included a description of some of the matters that might be taken into account when determining whether work is actuarial work which might be within the scope of the Pensions TAS (paragraph B.1.4). In addition we have included examples of work that is and is not actuarial work throughout Part C. These lists are not exhaustive.

2.6 The *Significant Considerations* document gives further details of our thinking.

SCHEME FUNDING – PROVISION OF NEUTRAL ESTIMATES

- 2.7 Paragraph E.4.2 of the exposure draft included a requirement for a neutral estimate to be shown alongside every prudent estimate of liabilities in Scheme Funding exercises. We believe that it is important that trustees can understand how much prudence there is in the calculation of the technical provisions and how the level of prudence has changed from the previous exercise.
- 2.8 Many practitioners were concerned about the proposal. Their concerns included:
- providing a neutral estimate would not add any value and would confuse users who already are provided with considerable information, including the solvency position;
 - a single point estimate is not the best method for demonstrating the level of prudence and other methods would provide a better illustration of prudence to trustees;
 - the existence of a neutral estimate would weaken the trustees' negotiating position with the sponsor and could result in reduced funding for pension scheme members; and
 - a lack of clarity about what a neutral estimate is – in particular what allowance if any should be made for equities and other assets outperforming bonds.
- 2.9 We do not consider that the provision of a neutral estimate would confuse users, provided the communication is clear. We agree that the solvency position is useful and important information for trustees. However the solvency position by itself does not indicate how much prudence is contained in the technical provisions.
- 2.10 We agree that there are other ways of describing the level of prudence and we are not preventing or discouraging use of other methods. We have included a statement to this effect in paragraph E.2.12.
- 2.11 Some practitioners argued strongly that the provision of a neutral estimate could undermine the negotiating position of trustees and that this might lead to a reduction in security for members. However the purpose of our standards is not to assist any one party in a negotiation. Our TASs support the Reliability Objective, a key element of which is the transparency of actuarial information.
- 2.12 We note the concern about how a neutral estimate should be calculated. To address this we have redrafted the requirement in terms of a description of how to calculate the estimate (paragraph E.2.10).

SCHEME FUNDING REPORTS

- 2.13 Section E.5 of the exposure draft set out a list of information which “will need to be included” in Scheme Funding reports. The adopted guidance note GN9 (*Funding Defined Benefits – Presentation of Actuarial Advice*) currently sets out information which needs to be provided. The list in the exposure draft was less detailed than the GN9 requirements but covered a similar range of information. It was intended to enable scheme members (who have a right to request the report) to gain a good understanding of the financial position of the scheme from a single document.

- 2.14 Several practitioners were opposed to the proposed requirements. Some argued that the TAS should not set out any requirements for the contents of the report. They argued that the requirements would lead to extra costs with no benefit in the vast majority of cases as members rarely request a copy of the report and trustees rarely read it. Others argued that it is not for the BAS to determine what information members should have access to – if the BAS has concerns it should be raising them with the DWP. They also argued that members get sufficient information from other documents to which they have access, including the summary funding statement, the statement of funding principles, the statement of investment principles, the contribution schedule, the scheme booklet and the scheme accounts.
- 2.15 Some pension scheme members, member organisations and unions have told us that they find the report valuable. The Scheme Funding report can also be a valuable governance document for use by trustees and others, and is often used as a reference document by trustees and advisors when carrying out subsequent exercises. The annual report and accounts do not provide the full picture as they do not have to show any detailed information about the nature of liabilities.
- 2.16 One respondent suggested that the BAS might wish to instigate a separate high level review in conjunction with the DWP and tPR of what the Scheme Funding report should aim to achieve. We have discussed the matter with the DWP and it has indicated that it wishes the BAS to continue to set requirements for the information to be contained in the report. The DWP also indicated that it would not wish the contents of the report to be materially reduced to the detriment of scheme members.
- 2.17 We considered whether signposting to other documents should be allowed. In our view it is reasonable to allow signposting to other documents which have been prepared explicitly for members, and which are therefore readily available to them and are written in terms that are understandable to them. We have therefore decided to allow signposting to the scheme booklet or other similar communication material instead of summarising benefit provisions. However we do not consider it is appropriate to allow signposting to documents such as the statement of funding principles and the statement of investment principles which are not necessarily readily available to members or understandable by them.
- 2.18 Some respondents thought that the requirements for the Scheme Funding report do not fit into a TAS as they are rules rather than principles and do not support the Reliability Objective. It was also suggested that the requirements for the report could be placed in a separate document, such as a technical memorandum.
- 2.19 We agree that the requirements for the Scheme Funding report are more prescriptive and rules-based than other requirements in our TASs, but we have never dismissed the possibility of using rules when we consider them to be appropriate. We also consider it important that the needs of scheme members are taken into account. We have not ruled out the possibility of developing other types of document, such as Technical Memoranda, in the future, but are not currently in a position to do so. We consider that on practical grounds we should retain the list of requirements in the Pensions TAS.

- 2.20 The proposed requirements in the exposure draft included two items which were not in GN9 – the provision of anticipated cash flows and scenario analyses. Some practitioners questioned how useful this information would be to members, especially as there would be some additional cost in providing it.
- 2.21 We consider that the use of discounted values hides important information about the underlying cash flows. However, we agree that the quantification of cash flows may be disproportionate for smaller schemes. We have therefore modified the requirement to allow a description of the nature of the cash flows (paragraph E.3.10). Including a description does not, of course, rule out the quantification of cash flows, or the inclusion of illustrations such as charts, in cases in which it would be proportionate and helpful to do so.
- 2.22 Although we consider that a scenario analysis may be of use in some cases we accept that the benefit of doing so might not outweigh the cost, and the requirement is not in the final text. The requirement to provide a sensitivity analysis will provide members with information which will assist them in assessing what could happen to the funding level in certain situations.
- 2.23 Some respondents suggested that none of the items in section E.5 of the exposure draft are material as there are no decisions to be taken. It is not our intention that it should be possible to omit information from the report for this reason. We have therefore amended the definition of “material” in Part B to make it clear that the information required for Scheme Funding and analogous reports cannot be excluded on grounds of materiality.
- 2.24 In summary we have decided:
- to allow signposting to the scheme booklet or other similar communication material instead of summarising benefit provisions;
 - not at this time to create a separate document, such as a technical memorandum, for the contents of the Scheme Funding report;
 - to allow a description of cash flows instead of quantification;
 - not to include the requirement for a scenario analysis; and
 - to clarify that the items to be shown in the Scheme Funding report cannot be excluded on the ground of materiality.

SCOPE

- 2.25 Some respondents felt that the scope of the Pensions TAS should be wider in some areas – for example it was suggested that some investment work and more advice to scheme sponsors should be included. Others felt that the scope should be narrower – for example it was suggested that no work for sponsors in connection with Scheme Funding should be included. There was no overall consensus for either view, and few strong arguments were presented against our specific proposals, which therefore remain broadly unchanged.
- 2.26 Several respondents thought that paragraph C.1.7 of the exposure draft would bring asset/liability modelling work for pension schemes into scope. Our intention was that the TAS would apply to funding updates used as inputs to asset/liability models, but not to the models themselves. However, the distinction between these exercises is not clear cut. We have therefore

decided not to include actuarial work which is carried out specifically for investment decisions within the scope of the Pensions TAS at this stage.

- 2.27 Some respondents wondered whether work on bulk transfers and modification of scheme benefits for defined contribution schemes was intended to be within the scope of the TAS. Our proposed text did not exclude such work, which sometimes involves no actuarial work. If it does involve actuarial work (for example if there is a defined benefit underpin) we consider that it should comply with the TASs.
- 2.28 Several respondents suggested the TAS should be clearer about how it will apply to work carried out in respect of overseas accounting standards and how it will apply to work for UK accounting standards carried out for overseas companies. Paragraph 13 of the *Scope & Authority* covers the geographic scope of the TASs. It states that the geographic scope of TASs is limited to work done in relation to the UK operations of entities and any overseas operations which report into the UK within the context of UK legislation or regulation. As the geographic scope is clearly described in the *Scope & Authority* the information is not repeated in the Pensions TAS. The *Significant Considerations* document comments on this further.

SCHEMES NOT SUBJECT TO SCHEME FUNDING

- 2.29 In the exposure draft we noted that there are many schemes that are not subject to the Scheme Funding regime. The proposed text included a separate section (Part F) which would apply to funded pension schemes that are not subject to the Scheme Funding requirements. Part F of the exposure draft stated that the requirements of Part E (on Scheme Funding) would apply to such schemes *mutatis mutandis*. We asked for respondents' views on the application of the Pensions TAS to schemes that are not subject to the Scheme Funding requirements.
- 2.30 Most practitioners expressed the view that similar actuarial standards should apply to schemes that are not subject to the Scheme Funding regulations as apply to those schemes that are subject to Scheme Funding regulations.
- 2.31 Some respondents questioned whether the requirements would apply to a wider range of schemes than we intended. They were particularly concerned about defined contribution schemes, including Employer Financed Retirement Benefit Schemes (EFRBS). Work for such schemes is subject to Part F only if there is a legal requirement to carry out a funding assessment. In such cases (which we do not expect to be common) a proportionate approach should be taken to comply with the requirements of Part F.
- 2.32 One respondent questioned why the requirement to show a neutral estimate alongside a prudent estimate in funding exercises would apply to schemes subject to Part E, but not to schemes subject to Part F. The distinction was made because of the specific requirements of the Pensions Act 2004 for assumptions to be chosen prudently. In any event, paragraph C.5.4 of TAS M requires that an aggregate report that includes estimates that are not neutral should indicate their relationship to neutral estimates. If results are presented as being calculated prudently, users will therefore need to be given an indication of their relationship to a neutral estimate.

3 CHANGES TO THE TEXT

INTRODUCTION

- 3.1 As a result of the responses we received to the exposure draft, and comments we have received in other contexts, we have made a number of changes to the text in the exposure draft. Some changes have been made to ensure consistency with the Insurance TAS which is currently being drafted. The changes made are described in this section. Part II contains a version of the final text that shows the changes from the text in the exposure draft. Changes to paragraph numbering are not shown.
- 3.2 We are publishing a separate document, *Pensions Technical Actuarial Standard: Significant Considerations*, explaining the development of the Pensions TAS, including the significant considerations underlying the principles.
- 3.3 A number of minor changes have been made throughout the text in order to add clarity. They are not described individually in this section.
- 3.4 All references in this section are to the final version of the Pensions TAS, unless stated otherwise.

Introductory rubric

- 3.5 A reference to the *Significant Considerations* document has been added to the description of the status of the TAS.
- 3.6 The specification of the commencement date has been amended to make it clear that the Pensions TAS applies to both Reserved Work and aggregate reports completed on or after the commencement date, which is 1 April 2011.
- 3.7 The description of the relationship with other TASs has been amended to make it clear that Generic TASs apply to all work within the scope of the Pensions TAS.

PART A: PURPOSE

Purpose

- 3.8 Paragraph A.1.2 has been amended to include work carried out to enable trustees, sponsors and others to carry out their regulatory responsibilities, and for consistency with the Insurance TAS.

PART B: INTERPRETATION

- 3.9 Paragraph B.1.3 has been extended to emphasise that proportionality is a matter for judgement, and to give some examples of matters that might be taken into account when making that judgement. Paragraph B.1.4 has been included to explain what might constitute actuarial work for the purpose of the Pensions TAS.

Definitions

- 3.10 The definition of the term “funding assessment” has been amended to make it clear that it includes non-deterministic assessments of liability values.

- 3.11 The definition of “governing body” has been modified to refer explicitly to trustees of occupational pension schemes and administering authorities of sections of the Local Government Pension Scheme.
- 3.12 The definition of “material” has been extended to include the information that is required to be in Scheme Funding and analogous reports.
- 3.13 The definition of “Scheme Funding assessment” now makes it clear that it does not include the annual “actuarial report” update for pension schemes subject to the Scheme Funding regime.
- 3.14 Other definitions have been amended for consistency with the definitions contained in other TASs.

PART C: SCOPE

- 3.15 Paragraph C.1.5 has been amended to include actuarial work carried out to support decisions on benefit levels (such as discretionary benefits) as well as contribution requirements. The list of examples of actuarial work in paragraph C.1.6 has been expanded.
- 3.16 The term “defined benefit” has been removed from paragraphs C.1.5 and C.1.7 to ensure that relevant actuarial work for hybrid pension schemes is within the scope of the TAS.
- 3.17 Paragraphs C.1.7 and C.1.8 of the exposure draft (actuarial work to support investment decisions) have been deleted.
- 3.18 The list of examples of actuarial work in paragraph C.1.8 (scheme amendments) has been expanded.
- 3.19 Paragraph C.1.12 has been added to clarify that paragraph C.1.11 applies to both transfers with members’ consents and to transfers without members’ consents.
- 3.20 The list of examples of actuarial work in paragraph C.1.13 (bulk transfers) has been expanded. An example of work which is not covered by paragraph C.1.11 is included in paragraph C.1.14.
- 3.21 Paragraph C.1.15 has been amended to clarify that it applies to work in respect of pension schemes in wind-up or contemplating wind-up that concerns the transfer of assets and liabilities to an insurer.
- 3.22 The list of examples of actuarial work in paragraph C.1.16 (wind-ups) has been expanded. An example of work which is not covered by paragraph C.1.15 is included in paragraph C.1.17.
- 3.23 The reference to a governing body has been removed from paragraph C.1.18 (actuarial calculations), which has also been amended to make it clear that it applies only to work which has a direct effect on the pension scheme or payments to members. We removed the reference to governing body as actuarial work concerning actuarial calculations in respect of individual members is sometimes carried out for parties other than a governing body such as scheme sponsors.
- 3.24 Paragraph C.1.19 has been added to clarify that actuarial calculations are calculations which involve actuarial factors.

- 3.25 Examples of work which is not covered by paragraph C.1.18 are included in C.1.21.
- 3.26 Paragraph C.1.21 of the exposure draft is not included in the Pensions TAS as it provided references to legislation. The relevant points are covered in the *Significant Considerations* document.
- 3.27 Paragraph C.1.26 has been amended to clarify that actuarial work to support auditors of financial statements is within the scope of the Pensions TAS.

PART D: GENERAL PRINCIPLES

Judgement

- 3.28 Paragraph D.1.3 has been amended to give examples of when judgement might be needed.
- 3.29 Paragraph D.1.4 has been added. It states that the standard does not require the documentation or disclosure of judgements concerning its application or the application of other standards to work within the scope of the standard unless stated otherwise. This is consistent with judgements required concerning the application of other TASs.

Assumptions

- 3.30 Paragraph D.2.1 has been added to clarify that paragraphs D.2.2, D.2.3 and D.2.9 (use of assumptions in models and adjustments to assumptions for shortcomings in other assumptions) do not apply when assumptions are determined by the client or by regulation.
- 3.31 Paragraph D.2.3 has been modified to allow for the circumstance when there is insufficient relevant information available from which to derive assumptions. Paragraphs D.2.5 and D.2.6 have been added to cover the situations where there is either substantial relevant information or limited relevant information available for the derivation of assumptions.
- 3.32 Paragraph D.2.7 has been modified so that opinions about the appropriateness of assumptions may cover a set of assumptions rather than each individual assumption.
- 3.33 Paragraph D.2.7 of the exposure draft repeated text from TAS R which covered the situation when assumptions are specified by a user or by regulation and are materially inappropriate. This paragraph has not been included in the TAS, but a similar point is made in the *Significant Considerations* document.
- 3.34 In paragraph D.2.11 (explaining the rationale for changes to assumptions) “similar exercises” has been changed to “similar and related exercises”.
- 3.35 In paragraph D.2.17 (selecting mortality assumptions) “future changes to mortality rates” has been changed to “subsequent changes to mortality rates”. This change has been made because adjustments made to mortality tables can cover the period from the time the tables were produced to the present date and are therefore not “future changes”.
- 3.36 Paragraph D.2.18 has been modified so that assumptions for base rates of mortality should reflect both the current and anticipated membership of the pension scheme.

- 3.37 Paragraph D.2.19 has been clarified to state that mortality rates will need to be based on “the pension scheme’s own experience if it is statistically useful and statistics derived from a wider base such as publicly published mortality tables” rather than “publicly available statistics and the pension scheme’s own experience if it is statistically well-grounded”. The change means that mortality rates can, for example, be based on a consultancy firm’s in-house data which might not be publicly available.

Information

- 3.38 Paragraph D.3.3 has been amended to clarify that certain data does not need to be requested from individual members, the UK Government or regulators.
- 3.39 The word “overriding” has been deleted from paragraphs D.3.6 and D.3.7 (legislative uncertainty) so the principles apply to any legislation rather than only to overriding legislation.
- 3.40 In paragraph D.3.7 (explanation of legislative uncertainty) “known” has been added before “uncertainty” to exclude unknown uncertainties.

Calculations of payments to members

- 3.41 The sub-heading “Instructions for third parties” has been changed to “Instructions to other parties”, to cover cases when the instructions are provided to a party who is not a third party. Other references to third parties have been changed similarly.
- 3.42 Paragraph D.4.3 has been added so that the principles in the Pensions TAS (other than paragraphs D.4.1 and D.4.2) and those in the Generic TASs do not apply to the instructions given to parties who carry out calculations.
- 3.43 In paragraph D.4.4 “governing body” has been changed to “governing body or other body” to cover situations in which an entity other than the governing body as defined in the TAS (trustees or administering authorities) sets actuarial factors.
- 3.44 The principles covering transfer value factors and calculations have been moved from Part E to Part D. Paragraphs E.6.3 and E.6.4 of the exposure draft have been merged into the paragraph D.4.8 of the Pensions TAS.

Financial statements

- 3.45 Paragraph D.5.4 of the exposure draft has been removed as we agreed with respondents that it added nothing substantive.

PART E: PENSION SCHEMES SUBJECT TO PART 3 OF THE PENSIONS ACT 2004

Scheme Funding assessments

- 3.46 Sections E.2 (Scheme Funding – risks and uncertainty), E.3 (Assumptions used for technical provisions and statements of funding principles) and E.4 (Technical provisions, recovery plan and schedule of contributions) of the exposure draft have been combined into one section E.2 (Scheme Funding assessments).
- 3.47 Paragraph E.2.3 (reporting risks faced by pension schemes) now includes an additional example covering inflation risk.

- 3.48 Paragraph E.2.5 now refers to “measures” rather than “methods and measures”.
- 3.49 Paragraph E.2.7 (information for governing bodies) has been amended to clarify that reports should support rather than enable governing bodies to make decisions.
- 3.50 Paragraph E.2.8 has been added to clarify that other information which supports decision making may have been provided by other advisors.
- 3.51 Paragraph E.3.7 of the exposure draft (comparison of assumptions for technical provisions and solvency) has been deleted. We consider that other requirements in TAS R and the Pensions TAS will ensure that trustees have sufficient information about assumptions and their impact on the results of calculations.
- 3.52 Paragraphs E.2.10 to E.2.12 have been amended as discussed in paragraphs 2.9 to 2.12.

Scheme Funding reports

- 3.53 Paragraph E.3.3(e) has been amended to require disclosure of projected funding levels instead of amounts of assets and liabilities. The projections should be as at the expected effective date of the next Scheme Funding assessment. Current funding levels should also be disclosed.
- 3.54 Paragraph E.3.5 has been included to make it clear that the projections required in paragraph E.3.3(e) may be approximate.
- 3.55 Paragraph E.3.7 has been amended so that the Scheme Funding Report may refer to the scheme booklet or other explanatory material which has been distributed to members.
- 3.56 Paragraph E.3.10 has been amended so that a description of cash flows may be given instead of a quantification.
- 3.57 Paragraph E.3.11 has been amended so that details of the contribution plan need only be included in the Scheme Funding Report if it has been agreed.
- 3.58 Paragraph E.3.12 has been amended so that scenario analyses are not required.

4 TRANSITION FROM THE ACTUARIAL GUIDANCE NOTES

INTRODUCTION

- 4.1 Section 5 of the exposure draft described our intentions for the transition from the adopted Guidance Notes relevant to the Pensions TAS. Respondents were generally happy with our proposals. Comments on the specific guidance notes are set out below.
- 4.2 The GNs contain both technical and ethical requirements, as well as guidance on relevant legislation. Many of the technical requirements are superseded by principles in our TASs. However, our TASs do not cover ethical and professional matters, and do not provide guidance on legislation.
- 4.3 We intend to withdraw most of these GNs with effect from 1 April 2011, when the Pensions TAS becomes effective. The withdrawn GNs will remain available on our website.

GN9

- 4.4 GN9 (*Funding Defined Benefits – Presentation of Actuarial Advice*) covers matters concerning scheme funding advice and the contents of scheme funding reports.
- 4.5 Respondents to the consultation on *Pensions* that we issued in June 2009 expressed concern that there would be a period during which there will be some work to which both GN9 and TAS R apply. We therefore asked if it would be helpful if voluntary compliance with the Pensions TAS could replace compliance with GN9 during the transitional period. Several respondents supported this approach.
- 4.6 We are therefore amending GN9 so that it is possible to comply with it by complying with the Pensions and Generic TASs. The amended version of GN9 is being issued simultaneously with the Pensions TAS, and takes effect from 1 November 2010. A paragraph has been inserted at the end of the section on “Application” and the “Reminder to members” at the start of the GN now refers to TASs and the Actuaries’ Code.
- 4.7 GN9 sets out actuarial assumptions which might be used to determine the solvency position of a pension scheme. There are no principles in the Pensions TAS that require or recommend particular assumptions that should be used in specific contexts. This is consistent with our principles-based approach: we consider that assumptions should be based on the best information that is available at the time that the calculations are performed, rather than using a prescribed basis which may be out of date. Some practitioners are concerned that there are difficulties in assessing the likely cost of buying out benefits on wind-up if they do not frequently obtain quotes for their clients. We understand these concerns, but do not see it as our role to provide a substitute for market information.
- 4.8 We intend to withdraw GN9 with effect from 1 April 2011.

GN16

- 4.9 GN16 (*Retirement Benefit Schemes - Transfers Without Consent*) provides guidance to actuaries who provide certification in respect of bulk transfers made without members' consents.
- 4.10 It was suggested that some of the contents of GN16 should be adopted by the Actuarial Profession, and that the Profession should maintain a link to the opinion obtained from Counsel by the Faculty and Institute of Actuaries in 2005 regarding the "broadly no less favourable than" test. We have passed these comments on to the Actuarial Profession.
- 4.11 Several respondents expressed concern about the proposed withdrawal of GN16 as it contains wording of the certificate which actuaries use to certify that members' benefits after a proposed bulk transfer are broadly no less favourable than before. The DWP has published draft regulations⁴ which prescribe the form of the certificate. It is intended that the regulations will be effective from 6 April 2011. It was suggested that some of the contents of GN16 should be adopted by the Actuarial Profession, and that the Profession should maintain a link to the opinion obtained from Counsel by the Faculty and Institute of Actuaries in 2005 regarding the "broadly no less favourable than" test. We have passed these comments on to the Actuarial Profession.
- 4.12 We intend to withdraw GN16 when the regulations come into force.

GN19

- 4.13 GN19 (*Retirement Benefit Schemes - Winding-up and Scheme Asset Deficiency*) provides guidance to actuaries on some aspects of pension scheme wind-ups.
- 4.14 GN19 does not apply in relation to any scheme that started to wind-up on or after 1 December 2008. Versions 4.5 and 4.8 of GN9 will continue to apply to some work in connection with schemes that started to wind-up at earlier dates.
- 4.15 We intend to withdraw GN19 with effect from 1 April 2011. Versions 4.0 to 4.9 of GN19 will remain available on our website.

GN26

- 4.16 GN26 (*Pension Fund Terminology*) contains a glossary of actuarial terminology used in actuarial funding work. Several respondents thought that it would be helpful if a glossary of pension fund terminology continued to be maintained by the BAS or by another organisation. One respondent suggested that the Pensions Management Institute (PMI) might be a suitable body; another suggested the Actuarial Profession and several respondents were not concerned either way. One expressed the view that a glossary was not needed and might perpetuate the use of jargon. They felt that it was important that any terminology used was understandable to the user.
- 4.17 Over the coming months we will consider the matter further.
- 4.18 We intend to withdraw GN26 with effect from 1 April 2011.

GN28

- 4.19 GN28 (*Retirement Benefit Schemes - Adequacy of Benefits for Contracting-out*) gives guidance to actuaries determining whether a scheme passes the Reference Scheme Test. It also supplements the legislation by providing some extra criteria for how the test may be met.
- 4.20 The DWP has published draft regulations⁴ which replace many of the requirements of GN28. It is intended that the regulations will be effective from 6 April 2011. We intend to withdraw GN28 when the regulations come into force.

OTHER GNS

- 4.21 There were no substantive comments from respondents on GN34 (*Illustration of Defined Contribution Pension Scheme Benefits*) or GN36 (*Accounting for Retirement Benefits under FRS17*).
- 4.22 GN49 (*Occupational Pension Schemes – Scheme funding matters on which advice of actuary must be obtained*) covers some aspects of Scheme Funding advice to trustees. There are some aspects of GN49 which do not cover technical matters, and we have discussed these with the Actuarial Profession, which is currently considering them.
- 4.23 GN21 (*Post-Retirement Medical Plans*) covers work carried out in connection with accounting standards. This work has similarities to work carried out for pension liabilities which are reported in financial statements.
- 4.24 We intend to withdraw GN21, GN34, GN36 and GN49 with effect from 1 April 2011.

⁴ The Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2011.

PART II

TRACKED CHANGES FROM THE FEBRUARY 2010 EXPOSURE DRAFT OF THE PENSIONS TECHNICAL ACTUARIAL STANDARD

PENSIONS TECHNICAL ACTUARIAL STANDARD

PENSIONS TAS

Status

This standard (the Pensions TAS) is a Specific Technical Actuarial Standard (Specific TAS), as defined in the *Scope & Authority of Technical Standards (Scope & Authority)* of the Board for Actuarial Standards (BAS).

This standard should be read in the context of the *Scope & Authority*.

The *Scope & Authority* sets out circumstances in which material departures from this standard are permitted or required and the disclosures which are required in respect of them.

[A separate document, *Pensions TAS: Significant Considerations*, issued at the same time as this standard, reviews the considerations and arguments that were thought significant by the BAS in developing this standard.](#)

Scope

This standard applies to the work specified in Part C of the standard.

Wider adoption is encouraged.

Commencement

This standard applies to [Reserved Work completed on or after, and](#) work performed for aggregate reports completed on or after, 1 April 2011.

Earlier adoption is encouraged.

Relationship with other TASs and with Guidance Notes

This standard sets out principles to be adopted across the range of work to which it applies, as described above. ~~Other~~The Generic [TASs apply](#) and ~~other~~ Specific TASs may apply to work that is within the scope of this standard, setting out additional principles that should be adopted.

In the event of a conflict between this standard and a Guidance Note adopted by the BAS (as described in the *Scope & Authority*), this standard shall prevail.

CONTENTS

<i>Part</i>		<i>Page</i>
A	Purpose of the Pensions TAS	23
	A.1 Purpose	23
B	Interpretation	24
	B.1 Interpretation of the text	24
	B.2 Definitions	24
C	Scope	28
	C.1 Work within the scope of this standard	28
D	General principles	32
	D.1 Introduction	32
	D.2 Assumptions	32
	D.3 Information	35
	D.4 Calculations of payments to members	36
	D.5 Financial statements	37
E	Pension schemes subject to Part 3 of the Pensions Act 2004	39
	E.1 Introduction	39
	E.2 Scheme Funding assessments	39
	E.3 Scheme Funding report	41
F	Funded pension schemes not subject to Part 3 of the Pensions Act 2004	44
	F.1 Introduction	44
	F.2 Required funding assessments	44

A PURPOSE OF THE PENSIONS TAS

A.1 PURPOSE

A.1.1 The BAS's Reliability Objective is that the **users**¹ for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

A.1.2 The purpose of this standard is to assist the achievement of the Reliability Objective by ensuring that in the performance of work within its scope:

- ~~trustees, members of other pension scheme governing bodies, sponsors and other users of~~ actuarial information ~~are provided with to~~ pension scheme governing bodies, sponsors and other users is relevant, comprehensible and sufficient information, including information on risk and uncertainty, to enable them to ~~make~~support decisions ~~which relate to about~~ the financing of the **pension scheme** ~~or and decisions which~~ affect the benefits payable to members of the **pension scheme**, and includes information on risk and uncertainty;
- sufficient actuarial information is provided to enable pension scheme governing bodies, sponsors and other users of actuarial information to carry out their regulatory responsibilities in relation to the pension scheme; and
- actuarial calculations which result in payments to or from **pension schemes** are performed correctly and are carried out using ~~methods,~~ measures, methods and assumptions which are fit for purpose.

¹ Terms appearing in **bold** in the text are explained in the Definitions set out in Part B.

B INTERPRETATION

B.1 INTERPRETATION OF THE TEXT

- B.1.1 All text in this standard has equal status unless stated otherwise. Paragraphs setting out explicit principles are emphasised with boxes for convenience.
- B.1.2 The **Scope & Authority**² states that a failure to follow the principles in this standard need not be considered a departure if it does not have a **material** effect. The contents of this standard should be read in that context, even where the term **material** is not explicitly used or where the word “shall” is used.
- B.1.3 Nothing in this standard should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or assignment to which it relates and the benefit that **users** would be expected to obtain from the work. What work is proportionate is a matter for judgement and might depend on factors such as the expertise of users in the matters being reported on and their needs.
- B.1.4 Part C of this standard includes references to actuarial work. What constitutes actuarial work depends on matters such as whether users would reasonably expect the work to be performed using actuarial techniques, and whether the work involves risk, uncertainty or modelling. Actuarial work often involves the exercise of judgement. Some work performed by actuaries might not be actuarial work.
- B.1.5 The form that is taken by any explanations, rationales, descriptions, indications or other analyses required by this standard will need to depend on the scope of the work ~~being~~ performed and the benefit to ~~the~~ users. The level of detail required is a matter for judgement. Unless stated otherwise, analyses may be quantitative or qualitative.
- B.1.6 Lists ~~of examples~~ are not intended to be exhaustive.
- B.1.7 This standard should be interpreted in the light of the purpose set out in Part A.

B.2 DEFINITIONS

- B.2.1 Terms appearing in **bold** in the text are used with the meanings set out below. Some of the definitions are taken from the **Scope & Authority**. The definitions are used consistently in the **Scope & Authority** and other BAS standards.

actuarial factor A number calculated using actuarial techniques and used to place a value on a benefit or to convert a benefit from one form to another.

² Paragraph 23 of the **Scope & Authority**.

aggregate report	The set of all component reports relating to a piece of work within the scope of this standard. The aggregate report for a decision taken by a user in connection with work within the scope of this standard is the set of all component reports containing information material to that decision.
client	The body which has commissioned a piece of work. Examples include the governing body and employers participating in pension schemes .
component report	A document given to a user in permanent form containing material information which relates to work within the scope of this standard. A component report may be given to the user in hard copy or electronically. Formal written reports, draft reports, emails and presentations are examples of component reports . Possible contents of component reports include tables, charts and other diagrammatic presentations as well as or instead of text. A component report may form part of one or more aggregate reports .
data	Facts or information usually collected from records or from experience or observation. Examples include membership or policyholder data, claims data, asset and investment data, operating data (such as administrative or running costs), benefit definitions and policy terms and conditions.
to document	To record in documentation .
documentation	Records of facts, opinions, explanations of judgements and other matters. Documentation may be paper or electronic based. It is not necessarily provided to users . Documentation is material if it concerns a material matter.
entity	The pension scheme , insurance company, fund or other body that is the subject of the work being performed.
to fund	To accumulate funds in order to pay identified future outgoings.
funding assessment	A funding assessment for a pension scheme is an exercise which involves comparing the values of the liabilities with the value of the <u>and</u> assets or determining contribution requirements.
funding level	The ratio of the value of assets to the value of liabilities.
Generic TAS	A Technical Actuarial Standard which applies to all work specified in the Schedule to the Scope & Authority .
governing body	A body responsible for the governance of a pension scheme or a distinct part of a pension scheme. Examples of governing bodies include <u>The trustees of an occupational pension scheme and/or the administering authority of a section of the Local Government Pension Scheme.</u>

implementation	<p>The formulae and algorithms of a model in a form that will perform the calculations required by the specification.</p> <p>In many cases an implementation is a computer program, but other types of implementation are possible – for instance, manual calculations are often used for simple models.</p>
informed reader	<p>Someone who understands, or is capable of understanding with readily available advice, the financial issues involved in a particular pension scheme. An informed reader is not necessarily a user.</p>
material	<p>Matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing materiality is a matter of reasonable judgement which requires consideration of the users and the context in which the work is performed and reported.</p> <p>The information listed in section E.3 for inclusion in the Scheme Funding report or in analogous reports under Part F is material.</p>
measure	<p>The approach that is used to define how an (uncertain) asset or liability amount is quantified. Two different measures of the same asset or liability may produce different results.</p>
method	<p>The mechanism that is used to quantify an (uncertain) asset or liability amount. Two different methods of calculating the same asset or liability measure should produce similar results.</p>
model	<p>A representation of some aspect of the world which is based on simplifying assumptions.</p> <p>A model is defined specified by a specification that describes the matters that should be represented and the inputs and the relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using the implementation to produce a set of outputs from inputs in the form of data and parameters.</p>
neutral	<p>A neutral measure, assumption or judgement is one that is not deliberately either optimistic or pessimistic and does not incorporate any adjustments to reflect matters such as the desired outcomes. A neutral estimate is one that is derived using neutral measures, assumptions and judgements. There may be a range of neutral estimates, reflecting inherent uncertainty.</p>
report	<p>An aggregate report or a component report.</p>
pension scheme	<p>An occupational or personal pension scheme established under UK legislation.</p>
required funding assessment	<p>A funding assessment which is carried out for a governing body in order to comply with legal requirements. Legal requirements include those in a pension scheme's governing documents.</p>

Scheme Funding assessment	A funding assessment carried out in accordance with Part 3 of the <i>Pensions Act 2004</i> for an “actuarial valuation” (but not for an “actuarial report”) as defined in section 224 (2) of the <i>Pensions Act 2004</i> .
Scheme Funding report	The report required by section 224 (1) and defined as an “actuarial valuation” in section 224 (2) of the <i>Pensions Act 2004</i> .
Scope & Authority	The BAS’s <i>Scope & Authority of Technical Actuarial Standards</i> .
solvency basis	The assumptions used to determine the solvency position .
solvency position	The actuary's estimate of the solvency of the pension scheme as defined in section Regulation 7 (6) of the <i>Occupational Pension Schemes (Scheme Funding) Regulations 2005</i> .
Specific TAS	A Technical Actuarial Standard that is not designated by the BAS as a Generic TAS . A Specific TAS is limited to a specific, defined context.
<u>specification</u>	<u>A description of a model that describes the matters to be represented, the inputs and their interactions with each other, and the outputs to be produced.</u>
technical provisions	As defined in section 222 (2) of the <i>Pensions Act 2004</i> .
users	Those people whose decisions a report is intended (at the time of writing) to assist. Those to whom the report is addressed, regulators and third parties for whose benefit a report is written are examples of possible users .

C SCOPE

C.1 WORK WITHIN THE SCOPE OF THIS STANDARD

C.1.1 Work that is within the scope of this standard may also be within the scope of other BAS standards. In particular, the **Generic TASs**, ~~including those~~ on *Reporting Actuarial Information, Data and Modelling* apply to all such work.

C.1.2 This standard shall apply to all Reserved Work ~~that concerns~~ **pension schemes**.

C.1.3 Reserved Work is defined in the **Scope & Authority**.

C.1.4 This standard also applies to some work that is not Reserved Work, ~~as described below~~.

C.1.5 This standard shall apply to actuarial work ~~that is provided to enable~~ **performed for a governing body of a funded defined benefit pension scheme** to ~~makesupport~~ decisions on contribution requirements ~~or benefit levels~~.

C.1.6 The work described in paragraph C.1.5 includes:

- providing information to support the selection of assumptions;
- calculating the value of liabilities;
- calculating contributions required to meet the cost of a benefit enhancement for a member; and
- providing the results of calculations and other information to support proposals for contribution requirements.

~~C.1.7 This standard shall apply to actuarial work concerning contribution requirements or funding levels that is provided to support a governing body of a funded defined benefit pension scheme in making decisions on investment strategy.~~

~~C.1.8 The work described in paragraph C.1.7 includes:~~

- ~~• work to support the selection of assumptions;~~
- ~~• calculating projected cash flows; and~~
- ~~• calculating the value of liabilities.~~

C.1.7 This standard shall apply to actuarial work for ~~the~~ **governing body** of a **funded defined benefit pension scheme** that concerns any amendments, proposed or agreed, to the **pension scheme's** governing documents which might affect members' benefits or the security of their benefits.

C.1.8 The work described in paragraph C.1.7 includes:

- assessing the **funding** implications of changes an amendment to benefits;
- comparing funding levels before and after an amendment to benefits;
- assessing the financial implications of changes to the pension scheme rules; and
- comparing the values of benefits or member options before and after an amendment to benefits.

C.1.9 This standard shall apply to actuarial work for employers or **pension scheme** sponsors on any matter ~~related to~~ for a **Scheme Funding assessment** for which there is a statutory or contractual requirement for the **governing body** to reach agreement or consult on the matter with the employer or sponsor.

C.1.10 The work described in paragraph C.1.9 includes:

- providing information to support the agreement of assumptions to be used for a **Scheme Funding assessment**; and
- providing information to support the agreement of the level of contributions to be paid to a **pension scheme**.

C.1.11 This standard shall apply to actuarial work for a **governing body** in connection with a bulk transfer of assets and liabilities from one **pension scheme** to another.

C.1.12 Paragraph C.1.11 applies to actuarial work for the **governing body** of the transferring ~~scheme and the governing body of the~~ or receiving **pension scheme** concerning transfers with or without members' consents.

C.1.13 The work described in paragraph C.1.11 includes:

- comparing the values of benefits before and after the transfer;
- comparing the values of member options before and after the transfer;
- comparing **funding levels** before and after the transfer; and
- calculating the transfer value.

C.1.14 The work described in paragraph C.1.11 does not include arranging the transfer of assets and liabilities.

C.1.15 This standard shall apply to actuarial work for a **governing body** of a pension scheme in wind up or contemplating wind up that concerns that concerns the transfer of liabilities to an insurer ~~winding up~~.

C.1.16 The work described in paragraph C.1.15 includes:

- ~~comparing the values of benefits before and after the transfer-wind-up; and~~
- comparing the terms-value of member options ~~(such as early retirement)~~ before and after wind-up-the transfer; and
- estimating the cost of buying out benefits with an insurer.

C.1.17 The work described in paragraph C.1.15 does not include arranging the transfer of assets and liabilities.

C.1.18 This standard shall apply to actuarial work ~~for a governing body~~ that concerns calculations in respect of individual members ~~which use actuarial factors of a pension scheme~~ and which have a direct effect on payments to members or the financial position of the pension scheme.

C.1.19 For the purpose of paragraph C.1.18 actuarial calculations are calculations which involve actuarial factors.

C.1.20 The work described in paragraph C.1.18 includes:

- recommending and setting actuarial factors; and
- providing instructions to ~~third-other~~ parties on the calculations of benefits which use **actuarial factors**; ~~and.~~
- ~~recommending and setting actuarial factors.~~

C.1.21 The work described in paragraph C.1.18 does not include:

- arithmetical calculations using previously calculated actuarial factors (except if the work is Reserved Work); or
- checking other parties' systems and calculations.

C.1.22 This standard shall apply to actuarial work ~~that~~ concernsing projections of benefits from defined contribution elements of pension schemes which have been performed using assumptions other than those specified in legislation or other rules.

C.1.23 The work described in paragraph C.1.22 includes:

- recommending and setting actuarial factors for projecting expected pensions ~~calculated using actuarial factors~~;
- recommending and setting actuarial factors for use in the design of contribution scales ~~for schemes for which actuarial factors are used~~; and
- calculating contributions required to meet a targeted level of benefit.

~~C.1.21 The work described in paragraph C.1.19 does not include projections which use assumptions set out in FSA rules made under powers given to the FSA by the Financial Services and Markets Act 2000 or set out in TM1: Statutory Money Purchase Illustrations.~~

C.1.24 This standard shall apply to actuarial work concerning **pension schemes** which is provided in connection with financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure).

C.1.25 The work described in paragraph C.1.24 includes preparing information for the purpose of compliance with International Accounting Standard 19, International Accounting Standard 26, Financial Reporting Standard 17 and Financial Reports of Pension Schemes: Statement of Recommended Practice.

C.1.26 The work described in paragraph C.1.24 includes:

- providing information to preparers of financial statements to support the selection of assumptions;
- providing actuarial support to auditors of financial statements;
- providing an opinion on the suitability of assumptions; and
- providing information which is used in preparing financial statements.

C.1.27 This standard shall apply to actuarial work performed to support information on directors' pension arrangements which is disclosed in annual reports and in financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure).

C.1.28 The work described in paragraph C.1.27 includes valuing directors' pensions.

D GENERAL PRINCIPLES

D.1 INTRODUCTION

D.1.1 This Part contains general principles ~~relating to~~ concerning actuarial work in pensions that support the purpose of this standard set out in Part A. It should be interpreted as described in Part B. It applies to the work specified in Part C.

Judgement

D.1.2 Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner.

D.1.3 Judgement ~~may~~ might be needed on matters such as ~~the nature of information required to carry out an exercise;~~

- whether the work is actuarial work;
- the derivation of assumptions; and
- the selection of models.

D.1.4 This standard does not require the documentation or disclosure of judgements concerning its application unless stated otherwise.

D.2 ASSUMPTIONS

General considerations

D.2.1 Paragraphs D.2.2, D.2.3 and D.2.9 do not apply to assumptions used in models if the assumptions are specified in regulations or in some other legal document governing the work, or have been determined by the client or user.

D.2.2 Assumptions used in, or proposed for use in, **models** shall be appropriate for the purpose of the calculations for which they are used.

D.2.3 Assumptions used in, or proposed for use in, **models** shall be derived from ~~sufficient as much~~ relevant information as is sufficient or, if there is insufficient relevant information, as is available.

~~D.2.3 Any opinion (in a report) on an assumption to be used for an exercise shall include a statement about the appropriateness of the assumption for the purpose of the calculations for which it will be used.~~

D.2.4 What information is relevant is a matter for judgement and ~~will~~ might depend on ~~factors~~ matters such as the effective date of the calculations, and the purpose and the nature of the calculations for which the assumptions will be used. ~~Examples of information~~ Information that might be relevant includes matters such as:

- financial and economic outlooks;
- mortality and other demographic projections; and
- recent experience of the **pension scheme** if it is statistically ~~well-grounded~~useful.

D.2.5 If there is substantial relevant information from which assumptions for use in models might be derived, what relevant information is sufficient is a matter for judgement and might depend on matters such as the cost of obtaining additional relevant information, the benefit that users receive from the use of additional relevant information and the degree of uncertainty that users are prepared to accept.

D.2.6 If there is limited relevant information from which assumptions for use in models might be derived, what relevant information is available is a matter for judgement and might depend on matters such as the cost of obtaining additional relevant information and the time it takes to collect. The limited relevant information that is available might need to be supplemented by other information which serves as a proxy, and by judgement.

D.2.7 Any opinion in a report on an assumption or a set of assumptions to be used for an exercise shall include a statement about the appropriateness of the assumption or set of assumptions for the purpose of the calculations for which they will be used.

D.2.8 The selection of assumptions might ~~also~~ take account of any **material** events which are known to have occurred after the effective date of the calculations. The **Generic TAS** on *Reporting Actuarial Information* requires that the **aggregate report** shall indicate any **material** changes or events that are known by any person responsible for the **aggregate report** to have occurred since the effective date of the **data** and other information on which it is based.

~~D.2.6 The assumptions to be used for some purposes might be specified in regulations (or in some other legal document governing the work) or they might be the responsibility of the client or another party.~~

~~D.2.7 The **Generic TAS** on *Reporting Actuarial Information* requires an **aggregate report** to include sufficient information to enable its users to judge its relevance to the decisions for which they use it. If the assumptions used are considered to be **materially** inappropriate by a person responsible for a **report**, the **report** will need to include a statement to that effect, or other explanations.~~

D.2.9 No adjustment shall be made to any assumption used in, or proposed for use in, a **model** to compensate for a shortcoming in another unrelated assumption.

D.2.10 For example, assumptions about discount rates and future changes in mortality rates are unrelated.

Changes to assumptions

D.2.11 **Aggregate reports** shall explain any change in the rationale underlying the assumptions between two similar and related exercises.

D.2.12 The two exercises might be, but need not necessarily be, consecutive exercises such as two triennial **Scheme Funding assessments**. For example, the work carried out for the “actuarial valuation” and the work carried out for the “actuarial report” (both as defined in section 224 (2) of the *Pensions Act 2004*) are ~~examples of~~ two exercises which are similar ~~but not the same and related~~.

Discount rates

D.2.13 For any discount rates used in, or proposed for use in, an exercise, **aggregate reports** shall explain:

- a) the derivation of the discount rates;
- b) the implications of adopting the discount rates; and
- c) the cash flows that are being discounted.

D.2.14 An explanation of the derivation of discount rates might need to include matters such as:

- a comparison with low credit risk rates, such as rates based on nominal gilts or swaps yield curves published by the Bank of England ~~yield curves, gilts or swaps~~;
- the return expected from the **pension scheme’s** assets;
- a description of any **model** used to assist the setting of discount rates, including the assumptions underlying ~~the model~~ and ~~the~~ limitations ~~of the model~~; and
- a range of reasonable alternative discount rates.

D.2.15 An explanation of the implications of adopting particular discount rates might need to include matters such as:

- the possible effects on the pension scheme’s future funding level (on a solvency basis or technical provisions basis) ~~matters such as contribution levels and solvency levels in different scenarios~~; and
- the **funding** implications of members exercising options (such as exchanging pension for cash on retirement) if the discount rate used to set the option terms ~~for the options~~ differs from the discount rate used ~~in the exercise~~ for funding assessments.

~~D.2.15 An explanation of the cash flows that are being discounted will need to include an indication of their nature and timing.~~

D.2.16 **Aggregate reports** shall explain how the discount rates used in, or proposed for use in, an exercise concerning a **funded pension scheme** compare with the return on assets that can be expected from assets invested according to any documented ~~stated~~ investment strategy, including any anticipated changes in that strategy.

Mortality

D.2.17 If mortality assumptions are used in, or proposed for use in, an exercise there shall be separate assumptions for base rates of mortality and future ~~subsequent~~ changes to mortality rates.

D.2.18 Assumptions for base rates of mortality used in, or proposed for use in, an exercise shall reflect the current and anticipated membership of the **pension scheme** in question.

D.2.19 Assumptions for base rates of mortality will need to be based on publicly available statistics and the **pension scheme's** own experience if it is statistically well-grounded useful. Otherwise, assumptions will need to be based on statistics derived from a wider base such as publicly published mortality tables. ~~Matters~~ **Factors** which might need to be taken into account when using publicly available statistics include the average amounts of pensions and salaries and the socio-economic groups, location and occupations of members.

Discretionary practices

D.2.20 The **data** sought for any exercise shall include information about any relevant practice concerning discretionary benefits.

D.2.21 Relevant practices include:

- previous grants of discretionary benefits; and
- any existing policy regarding the exercise of discretion.

D.2.22 **Aggregate reports** shall state the extent to which assumptions take account of past experience of discretionary practices and information about the exercise of discretion in the future.

D.2.23 Information about the exercise of discretion in the future includes the views of the body which has the power to determine whether such benefits are awarded in the future.

Other assumptions

~~D.2.24 The **Generic TAS on Reporting Actuarial Information** requires an **aggregate report** to state the material assumptions on which calculations or judgements are based and the rationales for those assumptions. In pensions work those assumptions might include:~~

- ~~• future levels of inflation;~~
- ~~• the proportion of members withdrawing;~~
- ~~• the number of members exercising options such as early retirement and exchanging pension for cash on retirement; and~~
- the running costs of the **pension scheme**.

D.3 INFORMATION

Parties with influence or control

D.3.1 If any party associated with a **pension scheme** has influence or control over matters affecting benefits payable to members, the **data** sought for an exercise shall include information from that party about those matters.

D.3.2 Parties that might have influence or control over matters affecting benefits payable to members include:

- the governing body of a pension scheme;
- the principal employer of a **pension scheme**;
- participating employers in a **pension scheme**; and
- parent companies [of participating employers in a pension scheme](#).

D.3.3 [Neither an individual in their capacity as a pension scheme member, the UK Government nor any regulatory body is a party for the purpose of paragraph D.3.1.](#)

D.3.4 Matters over which a party might have influence or control include:

- benefit increases;
- levels of salary increase; and
- rates of membership turnover.

D.3.5 It might be necessary to seek the information through the **client** rather than directly from the party concerned. ~~If there are many parties, for example in a multi-employer pension scheme,~~ [The extent of the information to be sought is a matter for judgement, for example it might not be necessary to seek information from all participating employers in a multi-employer pension scheme.](#)

Legislative uncertainty

D.3.6 If there is any uncertainty about the impact of ~~overriding~~ legislation on the calculation of benefits, the **data** sought for any exercise shall include any known ~~and~~ relevant legal opinions in the possession of the **client** in relation to the **pension scheme** in question.

D.3.7 **Aggregate reports** shall include an explanation of any [known](#) uncertainty in benefit definitions due to ~~overriding~~ legislation.

D.3.8 The explanation might need to include matters such as:

- an indication of the maximum liability; and
- the liability under different scenarios.

D.4 CALCULATIONS OF PAYMENTS TO MEMBERS

Instructions for ~~third~~ [other](#) parties

D.4.1 Instructions provided to another party for the calculation of benefits or other payments related to individual members shall be sufficiently clear to enable ~~the other~~ [that](#) party to carry out the calculations correctly.

D.4.2 The instructions that are provided might need to include:

- clear descriptions of the circumstances in which the instructions do and do not apply;
- sufficient information to enable the calculations to be performed correctly;
- procedures for checking specimen calculations upon initial receipt of the instructions and thereafter; and
- comments on the circumstances in which the instructions should be reviewed, including the frequency of reviews.

D.4.3 [Paragraphs D.4.1 and D.4.2 apply to the provision of instructions to another party for the calculation of benefits or other payments. Other principles in this standard and the principles in the **Generic TASs** do not apply to such instructions.](#)

Information for ~~governing bodies~~[setting actuarial factors](#)

D.4.4 Information that is provided to enable a **governing body** [or other body](#) to set **actuarial factors** for calculations concerning individual members shall be sufficient for ~~the governing~~[that](#) body to understand the financial implications of choosing the [actuarial](#) factors.

D.4.5 The information that is provided might need to include matters such as:

- an indication of the financial impact of choosing different **actuarial factors** on the **funding** of the [pension scheme](#) ~~and~~ the members exercising options ~~and the sponsor of the scheme~~;
- ~~how sensitive the actuarial factors are to the implications of~~ changes in market conditions; and
- the circumstances in which the **actuarial factors** should be reviewed.

[Transfer values](#)

D.4.6 [Paragraphs D.4.7 to D.4.8 apply to information provided under Regulation 7B \(2\) of the Occupational Pension Schemes \(Transfer Values\) Regulations 1996 or under Regulation 2B\(2\) of the Occupational Pension Schemes \(Early Leavers: Cash Transfer Sums and Contribution Refunds\) Regulations 2006.](#)

D.4.7 [Information that is provided to enable a **governing body** to set assumptions for cash equivalent transfer values shall include a comparison of any proposed assumptions with those used for a **Scheme Funding assessment**.](#)

D.4.8 [The comparison will need to include an explanation of the differences between the two sets of assumptions which might include a comparison of transfer values on both sets of assumptions for sample members.](#)

D.5 FINANCIAL STATEMENTS

D.5.1 Paragraphs D.5.2 to D.5.3 apply to [actuarial](#) work supporting information provided to preparers and auditors of financial statements.

D.5.2 Information shall be sought regarding materiality levels for accounting purposes that apply to the piece of work.

D.5.3 If approximate **methods** have been used to provide actuarial information the **aggregate report** shall state any circumstances under which the information might, as a result of the use of approximate **methods**, be materially inaccurate for accounting purposes.

E PENSION SCHEMES SUBJECT TO PART 3 OF THE PENSIONS ACT 2004

E.1 INTRODUCTION

E.1.1 This Part applies to **pension schemes** which are subject to Part 3 of the *Pensions Act 2004* (Scheme Funding). It should be interpreted as described in Part B.

E.2 SCHEME FUNDING – ~~RISK~~ASSESSMENTS

E.2.1 [Paragraphs E.2.2 to E.2.12 apply to actuarial work supporting **Scheme Funding assessments for governing bodies** under section 230 of the *Pensions Act 2004*.](#)

Risk and uncertainty

E.2.2 The **Generic TAS** on *Reporting Actuarial Information* requires that for each **material** risk or uncertainty faced by the **entity** in relation to the work being reported on, an **aggregate report** shall state the nature and significance of the risk and the approach taken to the risk.

E.2.3 The risks faced by a **pension scheme** in relation to its **funding** might include:

- the risk that the pension scheme sponsor will not be able to pay contributions or make good deficits in the future;
- the risk that the future investment return on assets will be insufficient to meet the **governing body's funding** objectives;
- the risk that returns on the investment of future income may will differ from the returns available at the effective date of the calculations;
- the risk that inflation will differ from that assumed resulting in higher liabilities;
- the risk that falls in asset values will not be matched by similar falls in the values of liabilities;
- the risk that unanticipated future changes in mortality will increase the cost of the benefits; and
- the risk associated with the potential exercise of options under the **pension scheme** (by members or others).

E.2.4 There are many ways of indicating the extent of uncertainty and risks, such as:

- giving a range, ~~measure of the value at risk~~confidence level or other statistical calculation;
- presenting the outcomes of scenarios, possibly including extreme scenarios; and
- a narrative describing the risks.

~~E.2~~ **ASSUMPTIONS USED FOR TECHNICAL PROVISIONS AND STATEMENTS OF FUNDING PRINCIPLES**

~~E.2.1~~ Paragraphs ~~E.3.3 to E.3.7~~ apply to information provided under sections 230 (1) (a) and (b) of the *Pensions Act 2004*.

~~E.2.2~~ Section D.2 contains principles on assumptions.

Measures

E.2.5 **Aggregate reports** shall describe and explain the implications of adopting different **funding methods and measures**.

E.2.6 Explanations and descriptions might need to include matters such as:

- the treatment of new members;
- the treatment of future increases to salaries; and
- how the ~~funding methods and measures~~ might be expected to affect future contributions over the lifetime of the **pension scheme**.

Statutory duties

E.2.7 **Aggregate reports** shall contain sufficient actuarial information to ~~enable~~support the **governing body** ~~to fulfil~~fulfilling its statutory duties in relation to setting assumptions and the **funding** strategy.

E.2.8 Other information which supports the governing body in fulfilling its statutory duties might be provided by other advisors.

E.2.9 The information that is provided ~~will~~might need to include ~~matters such as~~:

- a range of options for each **material** assumption;
- relevant financial and economic information;
- the sensitivity of calculations to each **material** assumption;
- the effect that changes in financial conditions might have on the **technical provisions** and the **solvency position**; and
- relevant information about trends in mortality.

~~E.2.7~~ **Aggregate reports** shall include a comparison of the assumptions to be adopted for the calculation of the **technical provisions** with the **solvency basis**.

Technical provisions, ~~recovery plan and schedule of contributions~~

~~E.2.8 Paragraphs E.4.2 and E.4.3 apply to information provided under section 230 (1) (c) and (d) of the *Pensions Act 2004*.~~

E.2.10 **Aggregate reports** which include ~~a prudent estimate of the value of the liabilities~~ an assessment of the **technical provisions** of a **pension scheme** shall include:

- a) an approximate ~~neutral~~ estimate of the value of the liabilities represented by the **technical provisions** calculated using the same assumptions that are used for the **technical provisions** but with any margins for prudence removed;
- b) an explanation of the relationship between the ~~prudent and neutral estimates~~ **technical provisions** and the approximate estimate; and
- c) an explanation of any change to the relationship between the ~~prudent and neutral estimates~~ **technical provisions** and the approximate estimate from the previous exercise of the same type, if any.

E.2.11 The approximate estimate described in paragraph E.2.10 is a **neutral** estimate for the purpose of paragraph C.5.4 of the **Generic TAS on Modelling**. The level of detail and precision in the estimates is a matter for judgement.

E.2.12 The information in paragraph E.2.10 might need to be supplemented by further explanations of the level of prudence in the **technical provisions**.

E.3 SCHEME FUNDING REPORT

E.3.1 Paragraphs E.3.3 to E.3.12 apply to the **Scheme Funding report**.

E.3.2 A **Scheme Funding report** cannot be part of an **aggregate report** for any earlier decisions made during a **Scheme Funding assessment**. It might form part of an **aggregate report** for further decisions made by a **governing body** or by others.

Contents

E.3.3 The **Scheme Funding report** shall be written so that an **informed reader** can understand the financial position of the **pension scheme**, including its development since the previous **Scheme Funding assessment** and how it might change in the future. The **Scheme Funding report** shall include:

- a) information required by statute;
- b) the **governing body's funding** objectives;
- c) a description of the effect on members' benefits had the **pension scheme** been wound up at the effective date of the **Scheme Funding assessment**;
- d) an explanation of any difference between the **technical provisions** and the value of the liabilities calculated on the **solvency basis**; and
- ~~e) an estimate of the amount of the **pension scheme's** assets, the **technical provisions** and the **solvency position** at a future date no later than three years after the effective date of the **Scheme Funding assessment**.~~

e) the current **funding level** and projections of the **funding level** at the expected effective date of the next **Scheme Funding assessment** on the **solvency basis** and on the **technical provisions** basis.

E.3.4 Information about complex matters should not be excluded on the grounds that it may be too difficult for some readers to understand.

E.3.5 The projections required by paragraph E3.3(e) might be approximate.

E.3.6 The **Scheme Funding report** will need to include the information in paragraphs E.3.7 to E.3.12. This information is material. The level of detail is a matter for judgement.

E.3.7 The ~~information on data and information in the~~ **Scheme Funding report** will need to include the following information on data and information:

- summary membership **data** including average ages;
- a summary of the benefit provisions or a reference to a summary of benefit provisions which has already been provided to members;
- a statement of assets;
- a summary of ~~the governing body's~~ any stated investment strategy of the governing body;
- a summary of experience since the previous **Scheme Funding assessment** including membership changes, contributions paid and investment returns; and
- a summary of ~~material~~ significant events, including changes to benefits, that have taken place since the previous **Scheme Funding assessment** including changes to benefits.

E.3.8 The **Scheme Funding report** will need to include the following information on methodology and assumptions ~~in the Scheme Funding report will need to include:~~

- a description of ~~actuarial methods and~~ measures used; and
- a summary of the key assumptions including a comparison with those used in the previous **Scheme Funding assessment**.

E.3.9 The **Scheme Funding report** will need to include the following information on the **pension scheme's** experience ~~in the Scheme Funding report will need to include:~~

- an explanation of the reasons for changes in the **funding level** from the previous **Scheme Funding assessment**; and
- quantification of any ~~material~~ significant change in the **funding level** analysed by causes including changes in assumptions and ~~scheme the~~ experience of the pension scheme.

E.3.10 The ~~information on cash flows in the~~ **Scheme Funding report** will need to include the following information on cash flows:

- ~~projected~~ a description of the nature of future cash flows, which might need to include a description of how benefit amounts vary for different categories of the membership (such as pensioners, former members and active members).

E.3.11 The ~~information on results and decisions in the~~ **Scheme Funding report** will need to include the following information on results and decisions:

- a summary of the results of the calculations; and
- if it is available, the contribution plan agreed as a result of the **Scheme Funding assessment**.

E.3.12 The ~~information on risk and uncertainty in the~~ **Scheme Funding report** will need to include the following information on risk and uncertainty:

- a description of the risks to the financial position of the pension scheme and any actions taken to mitigate them;
- ~~an analysis of how the funding level and required contributions would change under a range of scenarios; and~~
- an analysis of the sensitivity of the results of the calculations to changes in key assumptions.

~~E.3.11 A **Scheme Funding report** cannot be part of an **aggregate report** for any earlier decisions made during a **Scheme Funding assessment**. It might form part of an **aggregate report** for further decisions made by a **governing body** or by others.~~

E.4 — TRANSFER VALUES

~~E.4.1 Paragraphs E.6.2 to E.6.4 apply to information provided under section 7B (2) of the *Occupational Pension Schemes (Transfer Values) Regulations 1996*.~~

~~E.4.2 The information provided to a **governing body** for setting assumptions for cash equivalent transfer values shall include a comparison of the assumptions with those used for a **Scheme Funding assessment**.~~

~~E.4.3 The comparison will need to include an explanation of the differences between the two sets of assumptions.~~

~~E.4.4 The comparison of assumptions might need to be supplemented by a comparison of transfer values on both sets of assumptions for sample members.~~

F FUNDED PENSION SCHEMES NOT SUBJECT TO PART 3 OF THE PENSIONS ACT 2004

F.1 INTRODUCTION

F.1.1 This Part applies to **funded pension schemes** which are not subject to Part 3 of the *Pensions Act 2004* (Scheme Funding). It should be interpreted as described in Part B. This Part requires that the relevant principles in Part E apply in the context of such **pension schemes'** governing documents and statutory requirements.

F.2 REQUIRED FUNDING ASSESSMENTS

F.2.1 Paragraphs E.2.2 to E.2.9 and E.3.3 to E.3.12 shall apply to **required funding assessments**.

F.2.2 References in Part E to the **Scheme Funding report** will need to be treated as applying to the **report** produced on completion of the **required funding assessment**. References to a **Scheme Funding assessment** will need to be treated as applying to a **required funding assessment**.

~~F.2.3 References to statements of funding principles, recovery plans and schedules of contributions in Part E will need to be treated as applying to any analogous documents required by the governing documents and statutory requirements for the pension scheme.~~

F.2.3 References ~~in Part E~~ to **technical provisions** ~~in Part E~~ will need to be treated as applying to a value of liabilities which is used to determine contributions under the governing documents and statutory requirements for the **pension scheme**.

~~F.2.4 The extent to which documents and requirements are analogous to those for Scheme Funding is a matter for judgement.~~

A MEMBERS OF THE BOARD FOR ACTUARIAL STANDARDS

Members

Jim Sutcliffe (A)	Chair
Keith Barton (A)	Principal, Aon Hewitt
David Blackwood	Group Finance Director, Yule Catto & Co plc
Lawrence Churchill	Chairman, NEST Corporation
Harold Clarke (A)	Director, European Actuarial Services, Ernst & Young
Christopher Daws	Chairman, Action for Children Pension Fund
Steven Haberman (A)	Professor of Actuarial Science and Deputy Dean of Cass Business School, City University
David Hare (A)	Chief Actuary UK & Europe, Standard Life Assurance Limited
Dianne Hayter	Chair of the Legal Services Consumer Panel
Julian Lowe (A)	Consultant
Oonagh McDonald	Director, Oonagh McDonald Consulting Ltd
Mukesh Mittal (A)	Insurance executive
Louise Pryor (A)	Director, Board for Actuarial Standards
Sir Derek Wanless	Chairman, Northumbrian Water Group plc
Martin Weale	Member, Bank of England Monetary Policy Committee

Observers

Jon-Paul Brett	Department for Work and Pensions
Seamus Creedon (A)	Groupe Consultatif Actuariel Européen
Richard Maconachie	The Actuarial Profession
Will Price	The Pensions Regulator
Paul Sharma	Financial Services Authority
James Templeton	H M Treasury

“A” denotes a Fellow of the Institute of Actuaries or the Faculty of Actuaries

B LIST OF RESPONDENTS TO THE FEBRUARY 2010 EXPOSURE DRAFT

Professional and trade bodies

Actuarial Profession	Law Society of Scotland
Association of Consulting Actuaries	Society of Pension Consultants
Confederation of British Industry	

Insurers, consultants and actuaries

Aon Consulting	Lane, Clark & Peacock LLP
Aviva	Legal & General
Barnett Waddingham	Mercer
Buck Consultants	Pension Protection Fund
Ernst & Young LLP	Punter Southall
First Actuarial LLP	Scottish Life
Heath Lambert	Scottish Widows
Hewitt	Simon Carne
Hymans Robertson LLP	Towers Watson
Jardine Lloyd Thompson	Xafinity Consulting
KPMG LLP	

Others

Dr John Bauly	Occupational Pensioners' Alliance
Department of Work and Pensions	Prospect



FINANCIAL REPORTING COUNCIL

5TH FLOOR

ALDWYCH HOUSE

71-91 ALDWYCH

LONDON WC2B 4HN

TEL: +44 (0)20 7492 2300

FAX: +44 (0)20 7492 2301

WEBSITE: www.frc.org.uk

© The Financial Reporting Council Limited 2010

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368.
Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.