

## TAS post-implementation review - pensions

### Introduction

Following the introduction of the Technical Actuarial Standards (TASs) in 2010-11, we have carried out a review to understand how the TASs have affected practitioners and users of actuarial work in pensions. We are carrying out a similar review in insurance. These reviews will provide valuable input to our first full review of the TASs which we will carry out in 2014.

### How we approached the review

We have held meetings with a wide range of stakeholders to get feedback on how the TASs have affected them. These stakeholders include practitioners, users including trustees (member nominated and independent), lawyers and regulators. Unsurprisingly practitioners, who use the TASs on a day-to-day basis, expressed more views on the TASs than other stakeholders. We have also collected feedback since the TASs were published through regular contact with stakeholders and from queries which we have received.

We would like to thank all those who provided input to our review.

### Headlines

Key points arising from our review include:

- the TASs have helped improve focus on the purpose of actuarial work, and the needs and decisions of users of actuarial work;
- the TASs have encouraged a review of processes and reports and have led to better documentation of work including models; and
- after a demanding transition, practitioners are generally comfortable with the scope and content of the TASs although there are a number of areas where some practitioners consider that improvements might be made.

### General feedback

Practitioners told us that the TASs have encouraged them to consider more carefully the purpose of the work, who is reading the advice, and what decisions the users are making. The TASs have led to improved internal processes – particularly on the use and documentation of models. Practitioners did not consider that the TASs have significantly affected the decisions taken by users of actuarial work, with some suggesting that the TASs effectively codify good practice.

Practitioners generally liked the flexibility of the principles-based standards and the requirement for judgement which supports them in providing client-focused advice.

The TASs apply to specified work but have influenced other work. For example, several firms told us they applied the principles of the TASs (such as those relating to documentation of models) to work not in scope.

The Pensions Regulator noted that there has been a general improvement in the quality of work in recent years – which might be due in part to TASs but is

probably also due to other factors such as the Scheme Funding regime.

There are some areas where clarification would be welcomed, for example the detailed application of scope, the definitions of materiality and proportionality, and how the TASs should be applied for work when there are no apparent decisions taken by users.

Some practitioners were concerned that the TASs require a disproportionate amount of work for smaller exercises. Even though the report to the user might not be much longer because of the TAS requirements, there is additional work from creating documentation to demonstrate compliance. For smaller exercises the time spent on this can be a significant proportion of the total time spent on the exercise.

### User expectations

With a few exceptions (for example independent trustees who are actuaries) users of actuarial work told us that while they might be aware of the existence of actuarial standards they are not familiar with the content and do not consider that they need to be. There is an expectation that qualified professionals will comply with any relevant professional standards.

TAS R requires a statement listing the TASs with which a piece of work has complied. Some practitioners and users considered that the requirement could be simplified to confirm compliance with “relevant TASs” rather than list each TAS or that the requirement could be removed or replaced with reporting by exception.

### Implementation of the TASs

Practitioners said that they spent considerable time on the implementation of the TASs. This included training as well as reviewing processes and standard reports. Several firms told us that they want future changes to the TASs to be kept to a minimum so that costs from further changes to processes etc. can be contained.

Initially there was uncertainty about some aspects of the application of the TASs including whether some areas of work were in the scope of the TASs, and applying materiality and proportionality. Some practitioners considered that the uncertainty, particularly around scope, resulted in more discussion within firms than should have been required. Many practitioners noted that explanatory material produced by the Association of Consulting Actuaries was helpful.

There was also an initial tendency to over-comply with the TASs. Some actuaries considered it better to provide too much information rather than risk being judged as not having fully complied at a later stage. This appears to have been a transitional issue. Practitioners are becoming more comfortable with exercising their judgement in determining how much information needs to be provided when complying with the TASs.

The majority of practitioners have developed checklists to aid working with the TASs.

## Costs - implementation

In the consultation on the Pensions TAS we estimated that the cost to firms of implementing the TASs might be in the region of 5% to 10% of one year's actuarial staff costs. Most firms told us that costs were lower than this – typically 2.5% of annual costs, or less for larger firms where there are considerable economies of scale, or there is relatively little work in scope. However, for some smaller firms the costs were close to the top of our estimate.

In most cases additional costs from implementation were not passed on to clients.

## Costs - ongoing

In the consultation on the Pensions TAS we suggested that ongoing costs of compliance should not be material with the possible exception of smaller pieces of work. This has been confirmed by our feedback from practitioners.

## Scope of the TASs

Most practitioners considered that the scope of the TASs is about right. Some have suggested that the TASs should cover actuarial work in areas, such as asset/liability modelling, which can result in significant decisions being made. A small number of practitioners considered that the scope of the TASs should be extended to cover all actuarial work, with possibly a lighter version of the Generic TASs applying to some work. However some have cautioned us against a widening of scope of the TASs noting that it could lead to actuaries being replaced by others for certain tasks such as work in connection with the production of statutory money purchase illustrations (SMPs).

## Style and structure of the TASs

In our meetings with stakeholders we asked for views on the style and the structure of the TASs. A range of views were expressed. Some practitioners considered that the TASs could be made shorter by collating common text (such as definitions) in one place, and by moving some of the supporting text into a separate document. Some suggested that there could be fewer principles. Some suggested that it was not necessary for the TASs to list examples of how compliance with some principles might be achieved. There was a view that the style of the TASs was “legalistic” making them harder to read, and several practitioners told us that they initially had found the language of TAS M hard to follow.

Several practitioners urged us not to change the structure and style of the TASs at the moment saying that even if there was room for improvement, significant additional time and cost would be incurred if changes were made to the TASs.

## TAS D (data)

The feedback from practitioners on TAS D was positive. They said that there had been little change to actuarial work as a result of TAS D, other than some additional documentation which was viewed as “no bad thing”.

## TAS M (modelling)

TAS M has had a major impact and has led firms to review their models and modelling processes. For some firms this was a substantial exercise. As a result of these reviews, many firms acknowledge that there has been an improvement in the documentation of models. The requirements of TAS M have encouraged more use of standard rather than ad-hoc models which practitioners generally considered to be a desirable outcome with improved reliability.

## TAS R (reporting actuarial information)

TAS R has resulted in a better focus on users' needs and decisions, and the purpose of work being undertaken.

Reports for major exercises have not significantly increased in length as a result of the TASs, but reports for smaller exercises are often longer than before. The requirements of the TASs have discouraged practitioners from providing quick advice in emails or orally. There were differing views on whether this was a desirable outcome.

Most practitioners considered that paragraph C.3.7 (reports that include the results of calculations of monetary amounts shall explain for each result whether it is the outcome of a planning exercise, a valuation exercise or some other exercise) was unhelpful and caused confusion rather than assisting users in understanding the purpose of the work.

Several practitioners considered that paragraph C.5.20 (showing or describing projected results) does not help users. Some suggested that any projected numbers may be misleading or confusing as many factors will affect future results. In practice, many practitioners include a narrative description of projected results rather than numbers. For certain work, some practitioners do not include anything on projections as they consider that such information would be immaterial as it would not affect the user's decisions.

We had varying feedback on the requirement to indicate cash flows (paragraph C.5.10). Some practitioners said they already provide comprehensive cash flow information where it helps their clients. Some said TAS R has prompted them to provide cash flow information which has been helpful in discussions with users. However, some practitioners do not provide cash flow information – mainly due to the cost and systems implications of doing so – instead they provide generic descriptions.

Practitioners provided us with detailed feedback on some of the principles, such as paragraph C.5.8 (methods and measures) and paragraph C.5.17 (provision of comparisons) where it was suggested improvements could be made.

## Pensions TAS

There were polarised views on the “neutral estimates” requirement of the Pensions TAS (paragraph E.2.10) to show technical provisions for Scheme Funding with margins for prudence removed. Some practitioners and users said they find the presentation of the additional information helpful as it assists trustees in understanding the amount of prudence in technical provisions. However,

many practitioners said it is unhelpful, and generates unnecessary debate (with extra time and cost) without affecting the outcome. There have been anecdotal suggestions that the requirement has occasionally resulted in lower contributions being paid to pension schemes – however, the opposition to the requirement is less than when we asked for views on the requirement in our consultation on the Pensions TAS. The Pensions Regulator noted that the “neutral estimate” requirement might be a distraction and that trustees should consider more than just one number when assessing prudence. We will reconsider paragraph E.2.10 when we review the TASs. We will also reconsider the requirements of the Pensions TAS in light of any changes which the Pensions Regulator makes in its forthcoming review of its Code of Practice on funding defined benefits.

Scheme Funding reports are generally shorter as a result of the Pensions TAS imposing fewer requirements than the Guidance Note which previously set out what should be in that report. Partly offsetting this is the information provided on the “neutral estimate” of scheme liabilities. Some reports contain more information and analysis on risks and uncertainties.

There was little appetite amongst practitioners for the list of information which should be included in Scheme Funding reports to be transferred from the Pensions TAS to another technical document.

The TASs have resulted in many firms producing longer reports on regular review of actuarial factors for calculations such as early retirement. Reports now often include more information on different options and the impact of these options on members. Practitioners and trustees generally considered that this was a good outcome as users have better information on which to make decisions.

## Transformations TAS

At the time of our meetings, few practitioners had experience of using the Transformations TAS. Most practitioners considered that there was no need for a separate Transformations TAS and reiterated concerns expressed at the consultation stage. They suggested that the principles in that TAS which apply to pensions work would sit much better in the Pensions TAS.

## TAS support

Our published answers to FAQs are considered helpful by practitioners although they would welcome faster handling of issues.

Several practitioners suggested that the FRC or the IFoA should provide more support for practitioners with, for example, case studies.

## Your feedback

Does this analysis of the impact of the TASs reflect your experiences? Do you have different views or are there any comments you would like to make. If so, please contact Robert Inglis on 020 7492 2356 or [r.inglis@frc.org.uk](mailto:r.inglis@frc.org.uk).

## FRC review of actuarial regulation

With input from the Institute and Faculty of Actuaries (IFoA), we have carried out a review of the FRC's role in actuarial regulation taking account of the changing environment since the Morris Review of the Actuarial Profession.

One of the conclusions of that review was that the planned full review of the TASs should consider:

- the scope of the TASs – whether it should be modified, to cover a wider range of actuarial work;
- the structure of the TASs – we will consider whether they should be consolidated or restructured;
- the content of the TASs – whether the principles and text in the TASs should be modified or augmented; and
- the overall approach to standard setting including the interaction between the FRC's and the IFoA's standards.

## Next steps

We will undertake the full review the TASs next year. It will take account of the feedback from the post-implementation reviews of pensions and insurance.

In conjunction with the review of the TASs, we intend to review support material such as the answers to frequently asked questions and the various Significant Considerations documents.

Any proposals for change will be subject to full consultation.

## Working groups

During this consultation process, it is important that we receive input from actuaries and stakeholders. We will be setting up working groups to support the consultation and would welcome volunteers. If you would like to be involved please contact Robert Inglis on 020 7492 2356 or [TASReview@frc.org.uk](mailto:TASReview@frc.org.uk)

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