



BOARD FOR ACTUARIAL STANDARDS

**EXPOSURE DRAFT:
PENSIONS**

FEBRUARY 2010

CONTENTS

	<i>Page</i>
Analysis of Responses and Invitation to Comment	3
1 Introduction	3
2 Structure, purpose and scope	5
3 Principles	12
4 General comments and further proposals	21
5 Transition from adopted guidance notes	25
6 Impact assessment	28
7 Invitation to comment	30
Exposure Draft	32
Appendices	54
A Members of the Board and Working Group	54
B Respondents to the consultation paper	56

ANALYSIS OF RESPONSES

AND

INVITATION TO COMMENT

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 June 2009, it published a consultation paper on a Specific Technical Actuarial Standard (Specific TAS)² on pensions.
- 1.2 The consultation period ended on 18 September 2009. A total of 34 public responses³ were received (see Appendix B). A number of meetings with practitioners and other stakeholders have also been held and the proposals were discussed with the FRC's Actuarial Stakeholder Interests Working Group. During the preparation of the consultation paper we were assisted by a Working Group⁴ who also provided valuable input as we considered the responses and drafted the proposed text of the Pensions TAS. We thank all those who have contributed.

SUMMARY

- 1.3 In drafting the proposed text of the Pensions TAS we have taken account of the comments we received in response to the consultation paper, as well as other comments that have been made to us. We have also considered the responses to our other consultations.
- 1.4 Respondents to the consultation generally agreed with the aims of the consultation paper and the proposed purpose of the Pensions TAS.
- 1.5 Respondents' views on the scope were varied. Some wanted the scope of the TAS to be restricted to Reserved Work while others felt that the scope should be wider than proposed, covering areas such as work in respect of defined contribution schemes and investment advice.
- 1.6 Although many practitioners objected to the proposed requirement to show best estimates alongside prudent estimates of liabilities in Scheme Funding assessments, the objections were not universal, and a number of users supported the proposal. We have included a modified approach in the proposed text – we continue to consider that it is important that trustees understand the level of prudence in the calculation of liabilities for Scheme Funding (see paragraphs 3.48 to 3.54).
- 1.7 There were also concerns about the proposed requirement for low risk comparator rates to be shown alongside discount rates. We have modified this proposal to take account of these concerns (see paragraphs 3.31 to 3.32).
- 1.8 A number of respondents commented that some of the principles which were proposed for the Pensions TAS could also apply to insurance and should

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in governance and corporate reporting.

² Generic TASs apply to all work specified in the Schedule to the BAS's *Scope & Authority of Technical Standards*. Specific TASs are limited to a specific, defined context.

³ The responses are available at <http://www.frc.org.uk/bas/publications/pub2053.html>.

⁴ Members of the working group are listed in Appendix A.

therefore be in one of the Generic TASs. This may be so for some principles, and we intend to review the structure of the TASs when the initial set has been issued. However, we note that the fact that a principle could apply more widely than the pensions field does not always imply that it should be applied more widely. Moreover, the Generic TASs apply to fields other than pensions and insurance, and a principle that is applicable to both those fields may not be applicable or desirable in other fields.

- 1.9 We have modified the proposed principles concerning the report produced at the end of a Scheme Funding assessment (called a Scheme Funding exercise in the consultation paper) in order to clarify the intended readership of the report and its possible contents.
- 1.10 Respondents generally agreed with the other principles proposed in the consultation. There were many helpful suggestions on the detailed wording which we have taken into account when drafting the proposed text.
- 1.11 Section 2 covers the structure, purpose and scope of the Pensions TAS. Section 3 covers the proposed principles of the TAS. These sections summarise the comments that we received in answer to the specific questions and describe how we have responded to them. Section 4 summarises the other comments we received, and describes further proposals. Section 5 considers the transition from the adopted guidance notes. Section 6 discusses the expected effects of the Pensions TAS and other TASs on pensions work. Section 7 contains our invitation to comment on the exposure draft of the Pensions TAS. The second part of this document contains the proposed text.

RESPONSES TO THIS CONSULTATION PAPER

- 1.12 Details of how to respond to this paper are set out in Section 7. Comments should reach the FRC by **21 May 2010**.

2 STRUCTURE, PURPOSE AND SCOPE

INTRODUCTION

- 2.1 This section considers the structure of the Pensions TAS. It also considers the purpose and scope, including responses to the specific questions on these matters that were proposed in the consultation paper. We have included these questions in boxes with the same numbering as in the consultation paper.
- 2.2 In brief we are proposing that:
- the Pensions TAS will consist of several different Parts, some of which will have limited scope; and
 - the overall scope will be that proposed in the consultation paper with the addition of some work relating to financial statements and defined contribution schemes.

STRUCTURE OF THE TAS

- 2.3 The first two Parts of the proposed text of the Pensions TAS follow the same pattern as the Generic TASs, with Part A covering the purpose and Part B the interpretation of the TAS. As a Specific TAS, the Pensions TAS must specify its scope, and this is done in Part C.
- 2.4 The principles of the TAS are in Parts D, E and F. Part D applies to all types of pension scheme. Part E applies only to private sector pension schemes which are subject to the Scheme Funding legislation. Part F applies to funded pension schemes which are not subject to the Scheme Funding legislation.
- 2.5 This structure will enable us to add other sections on specific areas of work in due course if necessary.

PURPOSE

1 Will the proposed purpose of the Pensions TAS that is set out in paragraph 2.3 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?

- 2.6 Most respondents who answered the question agreed that the proposed purpose would ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.
- 2.7 Several respondents suggested that the definition of “user” could result in extra work being carried out for the benefit of people who did not commission the work. Some practitioners commented that for some reports the users would include scheme members, whose requirements and expertise may differ from other users such as trustees and employers. It has been suggested that we have should have two definitions of users – primary and secondary – with different requirements for each.
- 2.8 We consider that all the intended users, regardless of their commercial relationship with those responsible for preparing the report, should be able to

rely on the information. However, we note that the intended users of a report do not necessarily include all those to whom the report is made available.

- 2.9 In particular, although pension scheme members have the right to request a copy of the report produced at the end of a Scheme Funding assessment, we consider that they would not, under our definition, be “users” of the report. Paragraph E.5.2⁵ explains that this report should be written so that it can be understood by an informed reader. The definition of an informed reader makes it clear that an informed reader should not necessarily be considered a user of the report.

SCOPE – RESERVED WORK

2	Do respondents agree that all Reserved Work concerning occupational pension schemes should be within the scope of the Pensions TAS?
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- 2.10 Almost all respondents agreed that all Reserved Work should be within the scope of the Pensions TAS. However a small number of respondents raised concerns about the definition of Reserved Work. They thought that it should not include work which is required by a contractual arrangement such as a Trust Deed as well as work that is required by legislation. Their concerns included:

- because Trust Deeds’ requirements vary, it is possible that a piece of work which is Reserved Work for one pension scheme might not be Reserved Work for another; and
- additional compliance costs could arise because relatively trivial areas of work are Reserved Work for some schemes as a result of the terms of a Trust Deed.

- 2.11 Reserved Work is defined in our *Scope & Authority*, which was issued, after consultation, on 1 July 2008. We consider that the definition should be consistent across all areas of actuarial work and, moreover, that work that is legally required to be performed, and to be performed by actuaries, should be performed to high standards, regardless of the source of the legal obligation. We therefore intend not to amend the definition of Reserved Work.

- 2.12 We observe that the Pensions TAS, in common with our other TASs, should not 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 (see paragraph B.1.3). We consider that the costs of compliance with the Pensions TAS will not be excessive.

SCOPE – FINANCIAL DECISIONS AND MEMBERS’ BENEFITS

3	Do respondents agree with our intention that the Pensions TAS should apply to work in connection with occupational pension schemes which is almost always carried out by an actuary and which is used to make important financial decisions or which might affect the level of benefits payable to members?
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⁵ References to Parts and to lettered paragraph numbers are to the proposed text of the TAS, as shown in the exposure draft

- 2.13 Many respondents agreed that the proposed approach was reasonable although some respondents thought that the proposal lacked clarity. The consultation paper did not present proposed text for the scope, but was intended to convey the spirit of our proposals. Part C describes the scope of the Pensions TAS.
- 2.14 Some practitioners argued that the scope should be limited to Reserved Work. They were concerned that actuaries would be placed under a competitive disadvantage because they would have to incur extra costs to comply with TASs compared with others who could perform the same work and would not have to comply.
- 2.15 Other respondents, both practitioners and other stakeholders, felt that all work that actuaries carry out should be subject to actuarial standards, regardless of whether such work is usually or sometimes performed by actuaries.
- 2.16 Our views have not changed. We consider that the Pensions TAS should apply to all work which is almost always carried out by an actuary and which is used to make important financial decisions or which might affect the level of benefits payable to members. In the future we may consider extending the scope of the Pensions TAS to some other areas of work which are often, but not always, carried out by actuaries.

SCOPE – NON-RESERVED WORK

4	<p>Should the Pensions TAS cover the non-Reserved Work listed below?</p> <p>a) updates to scheme funding information used to make or support financial decisions by governing bodies on contribution requirements, investment strategy and rule changes (paragraphs 4.12 and 4.13);</p> <p>b) actuarial information provided to employers or scheme sponsors on any matter related to Scheme Funding where there is a statutory or contractual requirement for the governing body to reach agreement with or consult on the matter with the employer or sponsor, or vice versa (paragraph 4.14);</p> <p>c) actuarial information provided to a governing body relating to amendments to scheme rules which might affect members’ benefits or their security (paragraph 4.15);</p> <p>d) actuarial information provided to a governing body relating to financial matters in connection with a bulk transfer of assets and liabilities from one pension scheme to another (paragraphs 4.16 to 4.18);</p> <p>e) if not covered by a TAS covering business rearrangements, actuarial information provided to governing bodies for pension schemes in wind up, including advice in connection with a transfer of liabilities on buy out (paragraphs 4.19 and 4.20); and</p> <p>f) actuarial information for a governing body relating to individual calculations and factors which is not Reserved Work (paragraphs 4.21 to 4.25).</p>
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Funding work for governing bodies

- 2.17 Most respondents agreed that the scope of the Pensions TAS should include updates to scheme funding information used to make or support financial decisions by governing bodies on contribution requirements, investment strategy and rule changes (question 4a).

Scheme Funding work for employers

- 2.18 Some respondents thought that Scheme Funding advice for employers concerning matters on which employers and trustees must agree or consult with each other should not be within the scope of the Pensions TAS (question 4b). They expressed the concerns described in paragraph 2.14. Other respondents agreed with us that this work should be within the scope of the Pensions TAS. For the reasons set out in paragraph 4.14 of the consultation paper we propose to include this work within the scope of the Pensions TAS.
- 2.19 Several respondents were concerned that if work for employers on Scheme Funding was within scope there could be significant duplication of work. This could happen if, for example, the actuary working for the trustees had analysed cash flows, projections or possible scenarios and the analysis had been provided to the employer but not to the actuary working for the employer. The information provided to the trustees could not form part of the employer's actuary's aggregate report in those circumstances. The employer's actuary might then have to perform similar analyses in order to comply with some of the requirements of the TASs. We consider that this need not be a problem. The *Scope & Authority*⁶ permits those responsible for commissioning work to instruct the actuary responsible for carrying it out to depart from specified (or all) requirements of TASs as long as the work in question is neither Reserved Work nor Required Work.
- 2.20 Several respondents suggested that there should be a separate TAS covering work for pension scheme sponsors reflecting the differences in the nature of the work and the relationship with the client. We intend to consider what work for scheme sponsors might be covered by the TAS at a future stage.

Amendments to scheme rules

- 2.21 Most respondents agreed that the scope of the Pensions TAS should include actuarial information provided to a governing body relating to amendments to scheme rules which might affect members' benefits or their security (question 4c).

Bulk transfers and wind-ups

- 2.22 There was general agreement that actuarial information provided in connection with bulk transfers should be within the scope of the Pensions TAS or the proposed business rearrangements (now known as *Transformations*) TAS (question 4d).
- 2.23 There was also general agreement that actuarial information provided for pension schemes in wind-up should be within the scope of the Pensions TAS or the proposed *Transformations* TAS (question 4e). However, some respondents noted that a considerable amount of the work that is undertaken in a wind-up is not actuarial work even though it is performed by actuaries. Paragraph C.1.16 clarifies which elements of this work will be in scope.
- 2.24 We have decided to bring the work discussed in paragraphs 2.22 and 2.23 within the scope of the Pensions TAS so that the principles in the Pensions TAS (including those on assumptions) will apply. Additional principles for this work may also be included in a future TAS on insurance and pensions transformations.

⁶ Paragraph 24 c) (iii) of the *Scope & Authority*.

Individual calculations

- 2.25 Most respondents agreed that actuarial information for a governing body relating to individual calculations and factors should be within the scope of the Pensions TAS (question 4f). Some respondents raised concerns about the impact on smaller pieces of work, commenting that compliance with TASs might be disproportionate. Paragraph B.1.3 states that the standard should not be interpreted as requiring work to be performed that is not proportionate to the assignment.

WORK OUT OF SCOPE

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| 5 | Do respondents agree that the areas of work described in paragraphs 4.29 to 4.33 should not be within the scope of the Pensions TAS? |
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Accounting for pension costs

- 2.26 Some respondents thought that work on accounting for pension costs (paragraphs 4.30 to 4.31 of the consultation paper) should be covered by BAS standards, while others did not. There were also different views on whether the work should be included in a separate Specific TAS on information for accounts, or whether it should be within the scope of the Pensions TAS.
- 2.27 These matters were also addressed in our consultation paper on *Actuarial information used for accounts and other financial documents*. As a result of the responses to that consultation we have decided not to issue a separate TAS on accounts, and therefore propose to include actuarial work concerning some information for accounts, including work to provide information for compliance with accounting standards IAS19 and FRS17, within the scope of the Pensions TAS (see paragraphs C.1.22 to C.1.24).

Investment

- 2.28 In paragraphs 4.32 to 4.33 of the consultation paper we explained why we were proposing not to include investment work within the scope of the Pensions TAS at this stage, although we may revisit this issue in the future. There were few respondents who disagreed.

SCOPE – DEFINED CONTRIBUTION SCHEMES

- | | |
|---|---|
| 6 | Should the following areas of work performed in connection with defined contribution schemes be within the scope of the Pensions TAS:
a) scheme design;
b) benefit projections;
c) any other work? |
|---|---|

- 2.29 Most respondents who addressed this question thought that neither scheme design work nor benefit projection work for defined contribution schemes should be within the scope of the Pensions TAS.
- 2.30 However, some respondents argued that, given the increasing importance of defined contribution schemes both in terms of the level of benefits being provided by such schemes and in terms of their popularity compared with defined benefit schemes, some work concerning defined contribution schemes should be within the scope of the Pensions TAS. We agree that work on scheme design and benefit projections for defined contribution schemes

should be within the scope of the Pensions TAS (see paragraphs C.1.19 to C.1.21).

- 2.31 No respondents suggested other areas of work for defined contribution schemes for inclusion within the scope of the Pensions TAS. Many respondents commented that much of the work in this area is not done by actuaries.

SCOPE – MERGERS AND ACQUISITIONS

7	Should work performed in connection with mergers and acquisitions (M&A) be within the scope of the Pensions TAS?
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- 2.32 Many respondents felt that compliance with TASs would not be possible for M&A work. They cited the tight timescales that often apply and the fact that full data may not always be available.

- 2.33 However, several respondents acknowledged that M&A work is often the basis for important decisions and that it should therefore be covered by TASs. In general, we agree. Work performed under tight deadlines is often less detailed and more approximate than other work, even though it may support very significant decisions. We consider that those relying on the work should be fully aware of its limitations. Compliance with TASs does not necessarily require work to be performed in great detail, but it does require that the limitations and uncertainty are explained properly to the users.

- 2.34 Some respondents suggested that M&A work should be included within the scope of the *Transformations* TAS. However, the *Transformations* TAS is intended to cover situations in which the benefits to beneficiaries (including scheme members) are affected by arrangements over which they have no control and in which actuaries are acting as independent experts or arbiters.

- 2.35 We are intending to consider M&A work at a later stage along with other work carried out for employers. We therefore propose not to include M&A work within the scope of the Pensions TAS at this stage.

SCOPE – INDUCEMENTS TO TRANSFER

8	Should work for scheme sponsors on inducements to transfer be within the scope of the Pensions TAS?
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- 2.36 Most respondents thought that work for scheme sponsors on inducements to transfer should not be within the scope of the Pensions TAS. Several noted that the Pensions Regulator has issued guidance on this issue. Others noted the ethical nature of elements of this work and suggested that the Actuarial Profession rather than the BAS should address this matter.

- 2.37 We have therefore decided not to include this work within the scope of the Pensions TAS at this stage. However, we may decide to include the work within the scope of this or another TAS at some future date.

SCOPE – OTHER WORK FOR SCHEME SPONSORS

9	Is there any work for scheme sponsors, other than work on Scheme Funding where agreement is required and inducements to transfer, that should be within the scope of the Pensions TAS?
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- 2.38 Most respondents felt that there were no additional areas of work for scheme sponsors that should be within the scope of the standard. We have decided

not to include any such work within the scope of the Pensions TAS at this stage. However, we may decide to include some such work within the scope of this or another TAS at some future date.

SCOPE – OTHER WORK

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|----|---|
| 10 | Is there any other work which is not mentioned above that should be within the scope of Pensions TAS? |
|----|---|
- 2.39 No additional areas that should be within the scope of the TAS were suggested.
- 2.40 In our consultation paper on *Actuarial information used for accounts and other financial documents* we considered whether actuarial information provided for various financial documents should be within the scope of a separate accounts TAS, or whether some or all of the work should be within the scope of the Pensions and Insurance TASs. As a result of the consultation we have decided not to issue a separate accounts TAS.
- 2.41 We are proposing that actuarial work connected with the preparation of financial statements should be within the scope of the Pensions TAS, as should work connected with the disclosure of directors' remuneration (see paragraphs C.1.22 to C.1.26). This includes information provided for reporting under accounting standards FRS 17 and IAS 19. This work relies on actuarial methods and can be of high public interest.

3 PRINCIPLES

INTRODUCTION

- 3.1 In this section we summarise the comments that we received in answer to the specific questions on the proposed principles that were posed in the consultation paper, and our reactions to them. In brief, we are proposing that:
- most of the principles proposed in the consultation paper will be in the Pensions TAS, some of them in modified form;
 - there is no principle requiring the presentation of low risk comparator rates alongside discount rates; and
 - there is a principle requiring the presentation of a neutral estimate of liabilities alongside any prudent estimate of liabilities in Scheme Funding assessments.
- 3.2 Section 4 discusses the comments that we received that were not in answer to the specific questions that were posed in the consultation paper.

DATA

11 Do respondents have any comments on the proposals concerning data that are presented in section 5, especially those in paragraphs 5.7, 5.10, and 5.12?

Obtaining data

- 3.3 Paragraph 5.7 of the consultation paper proposed a principle that the data sought should include information from the scheme sponsor about matters affecting benefits payable to members over which it has influence or control.
- 3.4 Although there was general agreement with the proposed principle it was noted that practitioners may not have direct access to the scheme sponsor. Our proposed text points out that in some cases it might be necessary to seek the information through the governing body rather than directly from the sponsor or other third party (paragraphs D.3.1 to D.3.4).
- 3.5 It was also noted that it may be impractical and disproportionate to seek this information from all employers in a multi-employer scheme. We have addressed this in paragraph D.3.4.

Legal uncertainty

- 3.6 Paragraph 5.10 of the consultation paper proposed a principle about seeking legal opinions if there is uncertainty about the impact of overriding legislation. There was general support for the principle but some concern that that it could be too open-ended. Paragraph D.3.5 addresses the issue.

Discretionary practices

- 3.7 Paragraph 5.12 of the consultation paper proposed a principle on seeking information about discretionary practices. There was general agreement with the proposed principle, which is included in paragraph D.2.20.

12 Are there any other data issues which respondents believe should be covered by principles in the Pensions TAS?

- 3.8 No other significant data issues which should be covered in the Pensions TAS were identified.

ASSUMPTIONS

13 Do respondents have any comments on the proposals concerning assumptions that are presented in section 6, especially those in paragraphs 6.3, 6.8, 6.12, 6.14, 6.16, 6.19, 6.33, 6.35, 6.36, 6.42, 6.46, 6.53, 6.61 and 6.63?

- 3.9 Who is responsible for setting actuarial assumptions depends on legal requirements and the terms of a pension scheme's rules. Sometimes it is the trustees, sometimes the actuary and sometimes assumptions are specified by law or other regulations. Some respondents were concerned that the TAS would not make the distinction clear. The proposed text addresses this point by referring to assumptions used in, or proposed for use in, various situations.

Benchmarking

- 3.10 Paragraph 6.3 of the consultation paper indicated that we were not currently inclined to set benchmarks for assumptions used for tasks such as Scheme Funding. Respondents universally agreed with our proposed approach. We will, of course, keep our approach under review.

Purpose of calculations

- 3.11 Paragraph 6.8 of the consultation paper proposed a principle that assumptions should take account of the purpose of the calculations for which they will be used. Respondents universally agreed with the proposed principle.

Information used to set assumptions

- 3.12 Paragraph 6.12 of the consultation paper proposed a principle concerning the information which should be taken into account when selecting assumptions. Paragraph 6.14 proposed an additional principle that recent experience of a pension scheme should be analysed and compared with certain assumptions, and paragraph 6.16 that the assumptions should take account of information from the sponsor on matters over which it has influence or control.
- 3.13 Some respondents had concerns that the requirement in paragraph 6.12 to take account of material post-event matters was too strong, and some had concerns that the principle in paragraph 6.14 could result in work being carried out which was not statistically credible.
- 3.14 Paragraph D.2.2 contains a single principle concerning the information that should be used in deriving assumptions which addresses these concerns.

Compensating adjustments

- 3.15 Paragraph 6.19 of the consultation paper proposed a principle that no adjustment should be made to an assumption to compensate for a shortcoming in another assumption.
- 3.16 Respondents generally agreed with this proposal, although some were concerned that sometimes one major assumption may deliberately be chosen with a significant element of prudence with other assumptions chosen on a best estimate basis because of that element of prudence. We consider that a

presence or absence of prudence does not necessarily constitute a shortcoming. The principle is in paragraph D.2.8.

Discount rates and investment strategy

- 3.17 Paragraph 6.33 of the consultation paper proposed a principle that if a discount rate is related to the future returns on scheme assets, its selection should take account of the trustees' investment strategy and anticipated changes in that strategy.
- 3.18 There was broad agreement with the proposed principle, which is in paragraph D.2.16.
- 3.19 Paragraph 6.35 of the consultation paper proposed a principle that if a discount rate is related to the future returns on scheme assets, its selection should take account of the risk that yields on the investment of future income will be lower than the yields currently available.
- 3.20 Some respondents commented that the proposed principle was too prescriptive. Others suggested that there should instead be a requirement for the user's attention to be drawn to the risk that yields may fall. We agree, and we have included no such principle in the proposed text.

Inflation

- 3.21 Paragraph 6.36 of the consultation paper proposed a principle that assumptions about future rates of inflation should take account of financial indicators and publicly available forecasts.
- 3.22 Some respondents commented that the proposed principle was too prescriptive, although others had no such concerns. We have included no such principle in the proposed text, but paragraph D.2.4 points out that such information might be relevant to deriving assumptions.

Mortality

- 3.23 Paragraph 6.42 of the consultation paper proposed a principle that:
- a) separate assumptions should be selected for current rates of mortality and for future changes to mortality rates; and
 - b) assumptions concerning current rates of mortality should reflect the estimated current mortality rates applicable to the pension scheme in question.
- 3.24 Most respondents supported this principle although some concern was expressed about the implications for smaller schemes with limited data. This point is addressed in paragraph D.2.19.

Discretionary benefits

- 3.25 Paragraph 6.46 of the consultation paper proposed a principle that assumptions about the award of discretionary benefits should take account of past experience and information about the sponsor's or trustees' intentions which might affect the practice in the future.
- 3.26 Respondents generally supported the principle, which is in paragraph D.2.22.

Running costs

- 3.27 Paragraph 6.53 of the consultation paper proposed a principle concerning assumptions about the running costs of pension schemes. Most respondents thought that this principle was too detailed and that the selection of an assumption about running costs was adequately covered by the principles covering the general considerations concerning the selection of assumptions. We agree, and there is no such principle in the proposed text. Paragraph D.2.24 notes that assumptions about running costs might be material.

Assumptions for solvency calculations

- 3.28 Paragraph 6.61 of the consultation paper proposed a principle concerning the selection of assumptions for solvency calculations. We now consider that the other principles for setting assumptions, together with those proposed for inclusion in TAS M, sufficiently cover the issue and so there is no such principle in the proposed text.

Transfer values

- 3.29 Paragraph 6.63 of the consultation paper proposed a principle that assumptions selected for cash equivalent transfer values should be justifiable in relation to the assumptions used for Scheme Funding.
- 3.30 Respondents generally supported the principle but suggested that it should require a comparison rather than a justification. We agree: the principle is in paragraph E.6.2.

DISCOUNT RATE COMPARATOR

14 Respondents are asked for their views on whether a standard comparator rate for discount rates would assist users' understanding, and if so whether a low risk rate should be used.

- 3.31 Few respondents supported the proposal for the yield on low risk assets to be presented alongside discount rates. Some pointed out the difficulties in defining the yield on a low risk asset while others felt that other information would better help users understand the derivation of discount rates and the risks of adopting those rates.
- 3.32 We agree that other information might be more helpful to users. The principle in paragraph D.2.12 requires that aggregate reports explain the derivation of discount rates, the implications of adopting them and the cash flows that are being discounted.

OTHER PRINCIPLES ON ASSUMPTIONS

15 Are there any other principles on the selection of assumptions which respondents believe should be in the Pensions TAS?

- 3.33 Two respondents observed that, although most of the principles proposed for the Pensions TAS were focused on liabilities, actuarial work is sometimes used to value assets for which market values are not available. They suggested that relevant principles should be included in the TAS. However, we consider that many of the proposed principles (such as assumptions being appropriate for their purpose) are equally applicable to the valuation of assets and liabilities. We are not proposing to include additional principles covering the selection of assumptions for alternative approaches to asset valuation.

MODELLING

16 Do respondents have any comments on the proposals concerning modelling and calculations that are presented in section 7, especially those in paragraphs 7.6 and 7.10?

Funding methods

3.34 Paragraph 7.6 of the consultation paper proposed a principle that the funding method employed in Scheme Funding assessments should be explained to trustees and that this explanation should include how future entrants and future increases to benefits have been taken into account. Respondents generally supported the proposed principle, which appears in paragraphs E.3.3 and E.3.4.

Instructions for third parties

3.35 Paragraph 7.10 of the consultation paper proposed a principle covering instructions to third parties carrying out work which includes actuarial factors. There was general support for the principle, which appears in paragraphs D.4.1 to D.4.2.

Other principles on models

17 Are there any other principles relating to models and calculations which respondents believe should be in the Pensions TAS?

3.36 One respondent suggested that there should be principles covering rolling forward calculations from one date to another. We consider that the principles in TAS M are sufficient for roll forward calculations. The principle on explaining the limitations of models to users (paragraph C.5.7 of the December 2009 exposure draft of TAS M) is particularly relevant for these calculations, which are often based on a series of approximations.

REPORTING

18 Do respondents have any comments on the proposals concerning reporting that are presented in section 8.4, 8.17, 8.18, 8.35, 8.38, 8.39 and 8.40?

Change in rationale for assumptions

3.37 Paragraph 8.4 of the consultation paper proposed that there should be a principle requiring that the change in rationale underlying the selection of assumptions between similar exercises should be explained to users. There was general support for the principle, which appears in paragraph D.2.10.

3.38 There was some concern that it was not clear which exercises should be considered to be similar to each other. We consider that this is a matter for judgement, which should take into account the purpose of the exercises in question. For example, the calculation of pension costs for company accounts and Scheme Funding assessments have rather different purposes, while those for the “actuarial valuation” and the “actuarial report” required under Section 224 of the *Pensions Act 2004* are rather similar.

Scheme Funding – risk areas

3.39 Paragraph 8.17 of the consultation paper proposed a principle which detailed areas of risk which should be brought to the attention of trustees during a Scheme Funding assessment.

- 3.40 Two respondents commented on the overlap with the Pensions Regulator’s code of practice on funding defined benefits. However, we consider that the Pensions TAS should cover the communication of key areas of risk to the pension scheme during the Scheme Funding process. TAS R requires that the nature and significance of each material risk are explained to the user. Paragraphs E.2.1 to E.2.3 cover these points.

Uncertainty of benefit definitions

- 3.41 Paragraph 8.18 of the consultation paper proposed a principle requiring that the treatment of any uncertainty in benefit definitions should be explained to trustees in the course of a Scheme Funding assessment and that there should be an indication of the maximum liability.
- 3.42 Although respondents agreed that the treatment of any uncertainty should be explained, they did not agree that the maximum liability should necessarily be quantified. The difficulty of determining the maximum liability resulting from the equalisation of Guaranteed Minimum Pensions was cited. We accept the difficulty, but nevertheless consider that some indication of the additional liability would help an understanding of the magnitude of the possible liability. We also now consider that the principle is relevant to other work as well as to Scheme Funding assessments. The principle appears in paragraphs D.3.5 to D.3.7, which address these points.

PPF valuations

- 3.43 Paragraph 8.35 of the consultation paper proposed a principle which stated that the Pension Protection Fund (PPF) should be regarded as a user of the actuarial report containing the results of the PPF levy calculations.
- 3.44 Several respondents questioned whether this principle was needed. We agree, and there is no such principle in the proposed text.

Setting actuarial factors

- 3.45 Paragraphs 8.38 and 8.39 of the consultation paper proposed principles covering the information given to trustees to help them set actuarial factors for calculations including transfer values. Respondents generally supported the proposed principles, which appear in paragraphs D.4.3 and D.4.4.

Transfer values

- 3.46 Paragraph 8.40 proposed a principle requiring the information provided to trustees for setting cash equivalent transfer values (CETVs) to include a comparison with Scheme Funding assumptions with an explanation of any differences.
- 3.47 Few respondents had concerns with the proposed principle although some questioned its value. We consider that when trustees set the basis for calculating CETVs they should understand the relationship between the funding basis and the CETV basis. The principle, which applies only to pension schemes which are subject to Part 3 of the *Pensions Act 2004*, appears in paragraph E.6.2.

BEST ESTIMATES OF LIABILITIES

- | | |
|----|--|
| 19 | Do respondents agree that in Scheme Funding exercises any prudent estimate of scheme liabilities should be accompanied by a best estimate? |
|----|--|

- 3.48 Few of the formal responses to the consultation supported the proposal that a best estimate of Scheme Funding liabilities should be shown alongside any prudent estimate. Many respondents, including most of the practitioners who responded, were strongly against it. Some responses, while broadly supporting the objective of ensuring that trustees have a clear understanding of the degree of prudence, had significant concerns about the details of the principle. Further discussions with stakeholders have indicated that there is significant support for the proposal from some practitioners and, especially, from users.
- 3.49 The range of opinions expressed by stakeholders and the strength with which those opinions are held mean that, whatever our decision, some stakeholders will disagree with it. In view of our overall Reliability Objective, which is that the users of actuarial information should be able to place a high degree of reliance on it, we have given greater weight to the arguments coming from users than to those from practitioners. We consider that, if liabilities are described as prudent, trustees should have a clear understanding of the degree of prudence involved and how it has changed from that in the previous exercise. In our view this is best achieved by providing a comparison of the prudent estimate with a neutral estimate. We consider that an element of quantification provides a clearer basis for discussion than can be provided by a purely qualitative explanation.
- 3.50 Some of those opposing the proposed principle suggested that the calculation of a second estimate would result in considerable additional work and costs to users. We do not accept this argument. The proposed principle would not require the neutral estimate to be calculated at the same level of detail as the prudent estimate required for the technical provisions. An approximate estimate would be sufficient as long as it provides a clear indication of the relationship between the two estimates. In many cases some of the work would be performed in any case, in order to test the sensitivity of the prudent estimate to changes in assumptions.
- 3.51 It was also suggested that providing a “best estimate” would weaken the negotiating power of trustees: an employer might point to the difference between the two estimates and argue that the trustees are acting with excessive prudence. However, the purpose of our standards is not to assist any one party in a negotiation. Our TASs support the Reliability Objective, one of whose key elements is the transparency of actuarial information.
- 3.52 Another concern was that providing another estimate alongside the prudent estimate would not always help the trustees, and that in some cases it would reduce clarity. In particular, some respondents argued that it would not assist the clear communication of risk and uncertainty. We agree that a neutral estimate presented in isolation might be of little use. We are therefore proposing that an explanation of the relationship between the neutral and prudent estimates should be given to the users. The provision of a neutral estimate is intended to assist the communication of the degree of prudence – it may or may not assist the communication of risk and uncertainty.
- 3.53 Some practitioners cast doubts on the practicality of the proposal, arguing that in many cases there is no single “best estimate”. We have noted this concern. Our proposed principle uses the term “neutral estimate”. This terminology is consistent with that used in the exposure draft of TAS M. The definition of “neutral” in Part B makes it clear that there is not necessarily only a single possible neutral estimate.

3.54 Paragraph E.4.2 contains the proposed principle.

SCHEME FUNDING REPORTS

20 Do respondents agree with our conclusion that the final Scheme Funding report should include sufficient information for an informed reader to understand the financial position of the scheme, and that this is best accomplished by defining the intended users and decisions accordingly? Do respondents agree with our conclusion that this would result in little extra work?

3.55 Paragraph 8.30 of the consultation paper proposed that members who may make financial decisions based on the information in the report should be included among the intended users for the report produced at the end of the Scheme Funding assessment. Many respondents were concerned that this would be too onerous, as discussed above in paragraph 2.9. We accept these concerns, and the principle in paragraph E.5.2 requires only that the report be written for an informed reader, who is not necessarily, according to the definition of the term, a user.

3.56 It was suggested that the Pensions TAS should include a list of the information which a Scheme Funding report will need to contain. This view was expressed strongly by some organisations representing the interests of pension scheme members. A list of information which will need to be included appears in paragraphs E.5.5 to E.5.10.

21 Would the provision of specimen Scheme Funding reports be of value to users?

3.57 In the consultation paper we asked whether we should maintain specimen scheme funding reports. Some respondents felt that having specimen reports would help the efficient production of reports. Others suggested that the existence of specimen reports could help practitioners better understand BAS's requirements and intentions. We will consider at a later stage whether to provide specimen reports.

OTHER PRINCIPLES ON REPORTING

22 Are there any other principles on reporting which respondents believe should be in the Pensions TAS?

3.58 No other principles on reporting were suggested.

ACTUARIAL COMPARISONS

23 Do respondents think that actuarial comparisons in pensions should be covered in the Pensions TAS or in a Specific TAS covering similar matters across all areas of actuarial work?

3.59 Most respondents suggested that actuarial comparisons should be covered in the Pensions TAS rather than in a specific TAS addressing similar matters across all areas of actuarial work. Our consultation paper on *Insurance* included a similar question.

3.60 We have issued a consultation paper on *Transformations*, covering these matters, the consultation period for which ends on 1 March 2010. We will make no final decision until we have considered the responses to the consultation papers on *Insurance* and *Transformations*.

- 3.61 We are proposing to include two specific areas of work within the scope of the Pensions TAS which might also be within the scope of a *Transformations* TAS: actuarial work in relation to bulk transfers and pension scheme wind-ups. This will mean that the principles in the Pensions TAS on matters such as assumptions will apply to these areas of work. The *Transformations* TAS may contain further principles which are specific to these and other similar areas of work.

TRANSITION FROM ADOPTED GUIDANCE NOTES

24	Do respondents have any views on whether it would be of value to users of actuarial information for the BAS to maintain a glossary of actuarial terminology and if so, what it should contain?
25	Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 10?
26	Do respondents have any views on whether matters which could be construed as technical or ethical such as those mentioned in paragraphs 10.5, 10.13, 10.20 and 10.24 should be included in the Pensions TAS?

- 3.62 The transition from the adopted guidance notes is considered in section 5.

4 GENERAL COMMENTS AND FURTHER PROPOSALS

INTRODUCTION

- 4.1 In addition to the comments in answer to the specific questions posed in our consultation paper, we received a number of more general comments. Some of the comments which we have received on other consultations or in other contexts are also relevant to the development of the Pensions TAS.

COMMON PRINCIPLES IN TECHNICAL ACTUARIAL STANDARDS

- 4.2 Several respondents commented that some of the principles proposed in the consultation paper could apply equally to other areas of work including insurance and therefore should be in a Generic TAS. We intend to review the structure of the standards when they become effective. It is possible that we will modify the structure of the standards and move principles which are common to more than one Specific TAS (such as those on assumptions) to one of the Generic TASs.
- 4.3 However, it is not necessarily the case that a principle that is capable of being applied to other areas of actuarial work should be so applied. It is possible that a principle that is proportionate in one field of work would be disproportionate in another. The Generic TASs apply to a broad range of actuarial work, and even principles that are both applicable and proportionate to work in pensions and insurance might be inapplicable or disproportionate for work in other areas. The appearance of a principle in more than one Specific TAS does not therefore imply that it should be in a Generic TAS.

MATERIALITY AND PROPORTIONALITY

- 4.4 Some practitioners expressed their concern about the definition of materiality proposed for the pensions and other TASs. We noted these concerns and in November 2009 we amended the definition of materiality in our *Scope & Authority* and in TAS R. We have used this amended definition in subsequent exposure drafts and TASs.
- 4.5 In brief, our definition now makes it clear that the judgement of materiality must take place within the context in which the work is performed and reported. The context includes the time at which the activities take place, so there is no element of hindsight, but does not limit it to either the time at which the work is performed or the time at which it is reported (which are not always the same). The definition also introduces an element of reasonableness into the judgement. It remains close to that used in international accounting standards
- 4.6 There is some concern among pensions practitioners about the impact of the TASs on smaller pieces of work. Some have suggested that compliance could result in longer reports and additional costs to clients.
- 4.7 We consider not only that actuaries (and others complying with BAS standards) should not act disproportionately, but that they should not use BAS standards as an excuse for doing so. We consider that the best way of ensuring this is to explain that our standards should not be interpreted

disproportionately (paragraph B.1.3). Practitioners will need to use their judgement to determine what approach they use to comply with each requirement of the TASs, bearing in mind the particular circumstances of the case. Most of the requirements in our TASs are expressed in terms of indications, explanations and similar terms in order to allow scope for such judgements.

- 4.8 Many practitioners recognise that our TASs should not necessarily result in longer reports being produced for smaller pieces of work but some are concerned that additional costs will arise from demonstrating compliance. We do not set any requirements for the documentation practitioners or firms may wish to keep in order to demonstrate compliance. It is up to those who carry out work complying with our standards to determine what documentation they produce and they will no doubt consider it in the context of their existing quality control and peer review frameworks.

AGGREGATE REPORTS – SCHEME FUNDING

- 4.9 TAS R states that, in most circumstances, component reports issued after a decision has been made by users cannot contribute to the compliance of the aggregate report for that decision with TAS R. The focus of TAS R is on aggregate reports because we consider that it is of primary importance that users have the information that they need before they take decisions, rather than afterwards.
- 4.10 Several practitioners have expressed concerns about what constitutes a decision in the context of a Scheme Funding assessment. Some have suggested that there is just one decision (the decision to sign the documents at the end of the process) and therefore only one aggregate report for the whole Scheme Funding assessment. Others have argued that there are so many decisions taken throughout the process that compliance would be disproportionate.
- 4.11 We consider that the first suggestion is inconsistent with the principles of TAS R. Although the only formal decision may be the decision to sign the various documents, in practice a number of effective decisions are likely to have been taken at earlier stages – for example, the decision to agree a provisional set of assumptions. Trustees should have the relevant information to hand before they take the decisions that will affect the outcome. Some decisions are less final than others, and it can only be a matter for judgement where the dividing line lies.
- 4.12 Although a number of aggregate reports might therefore be issued during a Scheme Funding assessment, they are likely to have many individual component reports in common.
- 4.13 The preparation of the Scheme Funding report at the end of the exercise is Reserved Work, and is therefore within the scope of TAS R (and indeed the proposed scope of the Pensions TAS). However, the Scheme Funding report cannot contribute to compliance with TAS R for the decisions made during the exercise, as it is not issued until after they have all been taken. Its purpose is therefore likely to be limited.

DEFINITION OF ACTUARIAL INFORMATION

- 4.14 Some practitioners have asked that we clarify the definition of actuarial information which is used within our standards and our *Scope & Authority*. We intend not to define actuarial information. We consider that most

actuaries and users of actuarial information know what actuarial information is when it is produced. Part C includes more detailed descriptions of the work which will be within the scope of the Pensions TAS, which should help practitioners decide whether work will be within scope or not. However, it is not possible to cover all possible aspects of work and whether work is within scope will on occasion be a matter of judgement.

INTERACTION WITH THE ACTUARIES' CODE

- 4.15 Some practitioners suggested that much of the proposed pensions standard is not necessary because the Actuaries' Code sets professional standards which should ensure that work is carried out to a high standard.
- 4.16 The Actuaries' Code consists of principles which members are expected to observe in the public interest and in order to build and promote confidence in the work of actuaries and in the actuarial profession. However these principles do not extend to specifying the technical aspects of actuarial work which are addressed in the BAS's technical standards.

REPORTING DATA ISSUES

- 4.17 Paragraph C.4.3 of TAS R requires that aggregate reports describe any material uncertainty in the data. In this context a matter is material if it could affect the decision of users. Consequently TAS R does not require data issues to be reported if they are not material to the exercise being carried out. It has been suggested that the Pensions TAS should go further than this, as practitioners may become aware of data deficiencies which, although not material for the work being carried out, may be important for the longer term administration of the scheme.
- 4.18 The Pensions Regulator issued a consultation paper on record keeping on 2 February 2010 in which it states that "data issues encountered by advisers, including actuaries, should in our view be communicated to the client". We support this view. However, we consider that reporting data deficiencies that are not material in the context of the work being performed is not a technical actuarial matter and we are therefore not proposing to require such reporting in the Pensions TAS.

SCHEMES NOT SUBJECT TO SCHEME FUNDING REQUIREMENTS

- 4.19 There are a number of pension schemes that are not subject to the Scheme Funding requirements of the *Pensions Act 2004*. Such schemes include both unfunded and funded schemes in the public sector as well as some schemes in the private sector. Some work concerning schemes not subject to Scheme Funding is within the proposed scope of the Pensions TAS: the general principles in Part D and the principles in the Generic TASs will apply to such work.
- 4.20 The proposed text includes a separate Part (Part F) which will apply to funded pension schemes (including the Local Government Pension Scheme) which are not subject to the Scheme Funding requirements. Part F states that the requirements of Part E (on Scheme Funding) will apply to those schemes *mutatis mutandis*. In addition, the Pensions TAS may in the future include further Parts applying to unfunded schemes.
- 4.21 We will consult further with various stakeholders of schemes not subject to Scheme Funding, and would appreciate their views on the proposed text. As

we draft the TAS we will take into account the comments we receive. We will also consider the needs of public service schemes.

GOVERNING BODIES

- 4.22 Most occupational pension schemes are run under trust by trustees or a trustee corporation. The Funds in the Local Government Pension Scheme are run by “administering authorities”. Unfunded pension schemes have widely varying structures and governance arrangements. Paragraph B.2.1 uses the term “governing body” to cover the body that is “responsible for the governance of a pension scheme or a distinct part of a pension scheme”. This definition is intended to include trustees, administering authorities and bodies with analogous functions for unfunded schemes. However, it is possible that there are governance structures for which the definition would not be appropriate. We would therefore welcome any comments on the proposed definition, including any examples of schemes for which it would not work.

COMMENCEMENT OF THE PENSIONS TAS

- 4.23 We are proposing that the Pensions TAS should apply to work within its scope performed for aggregate reports completed on or after 1 April 2011. This means that it will apply to aggregate reports completed on or after 1 April 2011 and to data and models used in the preparation of aggregate reports completed on or after 1 April 2011.
- 4.24 As we intend to issue the TAS during the summer of 2010 we consider that practitioners will have sufficient time to ensure they can comply with the standard, especially as they will have become familiar with the application of the Generic Standards.
- 4.25 We would be interested in respondents’ views on the practicality of the proposed commencement date. If respondents are in favour of a later commencement date they should explain how the needs of users will be met.

5 TRANSITION FROM ADOPTED GUIDANCE NOTES

INTRODUCTION

- 5.1 We intend to withdraw the relevant adopted Guidance Notes (GNs) when the Pensions TAS becomes effective. More detailed comments on each GN are set out in the remainder of this section.

GN9

- 5.2 Many of the requirements of GN9 (*Funding Defined Benefits – Presentation of Actuarial Advice*) will be covered by the Pensions TAS and TAS R, although they will be expressed differently.
- 5.3 Some respondents have expressed concern that there will be a year or more when both GN9 and TAS R will apply to some work. It has been suggested that reports should not be required to comply with GN9 if they comply with TAS R and the Pensions TAS in the period between the issue of the final version of the Pensions TAS and its commencement date. This would require amendment of GN9.
- 5.4 We would be interested in respondents' views on the most effective approach for the transition from the requirements in GN9 to those in the TASs.

GN16

- 5.5 GN16 (*Retirement Benefit Schemes – Transfers Without Consent*) provides guidance to actuaries who provide certification in respect of bulk transfers made without members' consents.
- 5.6 GN16 refers to the opinion obtained from Counsel by the Faculty and Institute of Actuaries in 2005 regarding the "broadly no less favourable than" test. Several respondents commented that they found it helpful to be able to refer to this opinion.
- 5.7 We have considered whether we should continue to refer to it in our TASs and have concluded that we will not do so. Although the opinion is helpful to practitioners it was not provided to the BAS. Furthermore it is only one of the documents which actuaries and other practitioners may wish to consider when advising on bulk transfers. The Actuarial Profession may wish to maintain the document on their website.
- 5.8 GN16 contains the form of the certificate which actuaries must sign to confirm that benefits are in their opinion "broadly no less favourable". Several respondents suggested that the certificate should be maintained by the BAS.
- 5.9 We have concluded that the form of the certificate is not for us to determine. Although we intend to withdraw GN16, its text will (as a past version of a GN) remain available.

GN19

- 5.10 All substantive technical content has been removed from GN19 (*Retirement Benefit Schemes - Winding-up and Scheme Asset Deficiency*) following changes to legislation. However, references to GN19 remain in legislation. The DWP has published the draft *Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2010* which will amend the *Occupational Pension Schemes (Winding up) Regulations 1996* so that the reference to GN19 is replaced by a reference to BAS standards. The amended regulations will be effective from 6 April 2010.

GN26

- 5.11 The consultation paper noted that GN26 (*Pension Fund Terminology*) does not sit logically within the Pensions TAS and asked whether respondents would find it helpful for the BAS (or some other body) to maintain a glossary. There was almost unanimous support for the maintenance of a glossary, although some respondents questioned whether it should be the task of the BAS or the Actuarial Profession. We will consider this further and discuss it with stakeholders (including the Actuarial Profession).

GN28

- 5.12 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 as it provides details of what schemes must do to meet the test which are not contained in the legislation – for example on the treatment of spouses' pensions.
- 5.13 Although some aspects of GN28 are likely to be covered by TASs, the content which supplements legislation does not fit into principles-based standards. We are discussing with the DWP how this material might be maintained in the future.

GN34

- 5.14 GN34 (*Illustration of Defined Contribution Pension Scheme Benefits*) sets out considerations for actuaries providing illustrations of benefits from defined contribution schemes. Unlike many other GNs, GN34 is not mandatory. We are proposing that some defined contribution work should be within the scope of TAS (see paragraphs 2.29 to 2.31).

GN36

- 5.15 GN36 (*Accounting for Retirement Benefits under FRS17*) is not mandatory. No special considerations apply.

GN49

- 5.16 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.
- 5.17 The DWP has published the draft *Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2010* which will amend *The Occupational Pension Schemes (Scheme Funding) Regulations 2005* so that the reference to GN49 is replaced by a reference to relevant actuarial standards prepared by the Board for Actuarial Standards (BAS). The amendments will be effective from 6 April 2010.

6 IMPACT ASSESSMENT

INTRODUCTION

6.1 In this section we consider the impact of the introduction of the Pensions TAS, identifying benefits to users and costs of compliance and transition.

SUMMARY

- 6.2 Private sector pension schemes have liabilities in the region of £1trillion.⁷ Actuarial input into the management of these schemes is significant. Any additional costs of compliance with TASs will be a very small percentage of these liabilities.
- 6.3 We have analysed the additional long term costs of compliance with our TASs in pensions work, and have concluded that there may be a slight increase in the cost of carrying out actuarial work for trustees and governing bodies. However, we consider that the increase will not be significant or have a material effect on the costs to users. Our analysis assumes that reasonable judgement, especially on materiality and proportionality, is applied.
- 6.4 We expect the cost of transition to the TASs will not exceed, say, 5% - 10% of the annual cost to practitioners and firms of performing actuarial work for governing bodies and trustees for most schemes.
- 6.5 As the TASs will initially mainly cover trustee work the costs to employers are expected not to be material.
- 6.6 We consider that the benefits outlined below justify any additional costs.

BENEFITS

- 6.7 The Pensions TAS will bring a wide range of work within the scope of the Generic TASs. We have set out the benefits to users of the Generic TASs in the papers analysing the responses to previous consultations. In pensions work we consider that the Pensions TAS in conjunction with the Generic TASs will result in:
- better communication of risk and uncertainty enabling trustees and employers to make more informed decisions about matters including funding and benefit design;
 - better understanding of the rationale underlying the selection of assumptions including mortality and discount rates;
 - greater discussion about the differences between best estimates and prudent estimates used for Scheme Funding assessments;
 - greater focus on cash flows; and
 - greater focus on users' needs.

⁷ Chapter 4 of the *Purple Book* published by the Pension Protection Fund and the Pensions Regulator on 19 January 2010.

- 6.8 Practitioners are already reviewing their processes in light of the new standards and we consider that these reviews will also be of benefit to users.

ONGOING COSTS

- 6.9 We consider that the TASs will not result in any significant additional costs for Scheme Funding assessments. Although some additional costs might arise as a result of the requirements for projections and cash flows they are likely to be offset as the TASs will not be as prescriptive as GN9 about the calculations required for the solvency position.
- 6.10 The TASs are likely to result in some additional costs for other work. As many larger exercises probably already comply with many of the principles in the TASs, we consider that there will be few additional costs for them.
- 6.11 The additional costs of compliance are likely to be more significant in percentage terms for smaller exercises. Our TASs do not require disproportionate work. For smaller pieces of work they will not require much additional material to be provided to clients. However, practitioners may wish to ensure that they can demonstrate compliance with the standards and may therefore choose to document a number of the decisions they make, especially those concerning materiality and proportionality. The additional costs of this documentation will depend on the processes adopted and the detail and nature of the documentation.
- 6.12 There are some areas of work for which short reports are prepared quickly and at low cost, sometimes to enable a user to make a quick decision. It is possible that for such exercises compliance with the standards will result in more work being carried out with additional costs. However, this will by no means always be the case (see paragraph 2.33). Moreover, if the decisions to be made are important we consider that the information used should be of high quality, and in particular that users should understand any limitations in it. In these cases we consider that any additional costs will be justified.

TRANSITIONAL COSTS

- 6.13 Transitional costs include those for training, establishing compliance processes, reviewing and documenting models and reviewing report templates. Practitioners and firms will have to invest time in these areas. We estimate that the costs to them of doing so could be as much as 5% - 10% of the cost of carrying out actuarial work for trustees and other governing bodies. The costs will vary from firm to firm depending on their size and the nature of their client base. Practitioners and firms regularly review their processes and procedures to take account of changing legislation and market practices, new IT systems and so on. The introduction of the TASs is one of those factors which need to be considered in such reviews and in staff training. We would therefore expect much of the cost of transition to be borne by practitioners in the same way as they absorb other costs.

7 INVITATION TO COMMENT

QUESTIONS

- 7.1 The BAS invites the views of those stakeholders and other parties interested in actuarial information who wish to comment on the content of this document. In particular the BAS would welcome views on the following issues:
- 1 the application of the Pensions TAS to schemes not subject to Scheme Funding (paragraphs 4.19 to 4.21);
 - 2 the definition of governing body, especially examples of schemes for which the definition is not appropriate (paragraph 4.22);
 - 3 the proposed commencement date for the Pensions TAS (see paragraphs 4.23 to 4.25);
 - 4 the transition to the Pensions TAS from the adopted Guidance Notes (see section 5);
 - 5 our impact assessment and the effects that the introduction of the Pensions TAS is likely to have on actuarial information (see section 6);
 - 6 the text of the exposure draft as a means of implementing the proposals presented in this document.
- 7.2 In addition to the specific questions listed above, the BAS invites respondents' views on any other aspects of the proposed TAS. To ensure that the significance of their point is fully appreciated by the BAS, respondents are asked to indicate how their comments would address the BAS's aim of increasing the reliance that users of actuarial information can place on it.

RESPONSES

- 7.3 For ease of handling, we prefer comments to be sent electronically to baspensions@frc.org.uk. Comments may also be sent in hard copy form to:

The Director
 Board for Actuarial Standards
 5th Floor, Aldwych House
 71-91 Aldwych
 London
 WC2B 4HN

- 7.4 Comments should reach the FRC by **21 May 2010**.
- 7.5 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an e-mail message will not be regarded as a request for non disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore only information that you wish to publish should be submitted. If you are sending a confidential response by e-mail, please include the word "confidential" in the subject line of your e-mail.

- 7.6 We aim to publish non confidential responses on our web site within ten working days of receipt. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.

EXPOSURE DRAFT OF
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.

Scope

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

Wider adoption is encouraged.

Commencement

This standard applies to 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 Generic and 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 [OF THE PENSIONS TAS EXPOSURE DRAFT]

<i>Part</i>		<i>Page</i>
A	Purpose of the Pensions TAS	35
	A.1 Purpose	35
B	Interpretation	36
	B.1 Interpretation of the text	36
	B.2 Definitions	36
C	Scope	40
	C.1 Work within the scope of this standard	40
D	General principles	43
	D.1 Introduction	43
	D.2 Assumptions	43
	D.3 Information	46
	D.4 Calculations of payments to members	47
	D.5 Financial statements	47
E	Pension schemes subject to Part 3 of the Pensions Act 2004	49
	E.1 Introduction	49
	E.2 Scheme Funding – risks and uncertainty	49
	E.3 Assumptions used for technical provisions and statements of funding principles	49
	E.4 Technical provisions, recovery plan and schedule of contributions	50
	E.5 Scheme Funding report	50
	E.6 Transfer values	52
F	Funded pension schemes not subject to Part 3 of the Pensions Act 2004	53
	F.1 Introduction	53
	F.2 Required funding assessments	53

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 sufficient information, including information on risk and uncertainty, to enable them to make decisions which relate to the financing of the **pension scheme** or affect the benefits payable to members of 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** 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.
- B.1.4 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.1.5 Lists of examples are not intended to be exhaustive.
- B.1.6 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.
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 .

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

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 value of the liabilities with the value of the 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 the trustees of an occupational pension scheme and the administering authority of a section of the Local Government Pension Scheme.
implementation	The formulae and algorithms of a model in a form that will perform the calculations required by the specification . 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 .
informed reader	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 .

material	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.
measure	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.
method	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.
model	<p>A representation of some aspect of the world which is based on simplifying assumptions.</p> <p>A model is specified by describing the matters that should be represented 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	A neutral measure , assumption or judgement is one that 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.
report	An aggregate report or a component report .
pension scheme	An occupational or personal pension scheme established under UK legislation.
required funding assessment	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.
Scheme Funding assessment	A funding assessment carried out in accordance with Part 3 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 scheme as defined in section 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.

technical provisions As defined in section 222 (2) of the *Pensions Act 2004*.

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 a **governing body** of a **funded** defined benefit **pension scheme** to make decisions on contribution requirements.

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; and
- providing calculations and 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.1.9 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.1.10 The work described in paragraph C.1.9 includes:

- assessing the funding implications of changes to benefits; and
- assessing the financial implications of changes to scheme rules.

C.1.11 This standard shall apply to actuarial work for employers or scheme sponsors on any matter related to 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.1.12 The work described in paragraph C.1.11 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 scheme.

C.1.13 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.1.14 Paragraph C.1.13 applies to work for the **governing body** of the transferring scheme and the **governing body** of the receiving scheme. This work includes:

- comparing the values of benefits before and after the transfer; and
- comparing funding levels before and after the transfer.

C.1.15 This standard shall apply to actuarial work for a **governing body** that concerns winding up.

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

- comparing the values of benefits before and after wind-up; and
- comparing the terms of member options (such as early retirement) before and after wind-up.

C.1.17 This standard shall apply to actuarial work for a **governing body** that concerns calculations in respect of individual members which use **actuarial factors**.

C.1.18 The work described in paragraph C.1.17 includes:

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

C.1.19 This standard shall apply to actuarial work that concerns projections of benefits from defined contribution **pension schemes** which have been performed using assumptions other than those specified in legislation or other rules.

C.1.20 The work described in paragraph C.1.19 includes:

- projecting expected pensions calculated using **actuarial factors**;
- 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.1.22 This standard shall apply to actuarial work concerning **pension schemes** 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.1.23 The work described in paragraph C.1.22 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.1.24 The work described in paragraph C.1.22 includes:

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

C.1.25 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.1.26 The work described in paragraph C.1.25 includes valuing directors' pensions.

D GENERAL PRINCIPLES

D.1 INTRODUCTION

D.1.1 This Part contains general principles relating to 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.

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 be needed on matters such as the nature of information required to carry out an exercise.

D.2 ASSUMPTIONS

General considerations

D.2.1 Assumptions used in, or proposed for use in, **models** shall be appropriate for the purpose of the calculations for which they are used.

D.2.2 Assumptions used in, or proposed for use in, **models** shall be derived from sufficient relevant information.

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 depend on factors 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 that might be relevant include:

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

D.2.5 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.2.8 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.2.9 For example, assumptions about discount rates and future changes in mortality rates are unrelated.

Changes to assumptions

D.2.10 **Aggregate reports** shall explain any change in the rationale underlying the assumptions between two similar exercises.

D.2.11 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.

Discount rates

D.2.12 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.2.13 An explanation of the derivation of discount rates might need to include matters such as:

- a comparison with low risk rates, such as rates based on 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.2.14 An explanation of the implications of adopting particular discount rates might need to include matters such as:

- the possible effects on 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 terms for the options differs from the discount rate used in the exercise.

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 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 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 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. 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

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.

D.3.3 Matters over which a party might have influence or control include:

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

D.3.4 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.

Legislative uncertainty

D.3.5 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.3.6 **Aggregate reports** shall include an explanation of any uncertainty in benefit definitions due to overriding legislation.

D.3.7 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 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 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.

Information for governing bodies

D.4.3 Information that is provided to enable a **governing body** to set **actuarial factors** for calculations concerning individual members shall be sufficient for the **governing body** to understand the financial implications of choosing the factors.

D.4.4 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 scheme, the members exercising options and the sponsor of the scheme;
- how sensitive the **actuarial factors** are to changes in market conditions; and
- the circumstances in which the **actuarial factors** should be reviewed.

D.5 FINANCIAL STATEMENTS

D.5.1 Paragraphs D.5.2 to D.5.4 apply to 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 be materially inaccurate for accounting purposes.

- D.5.4 The **Generic TAS** on *Modelling* requires that the **material** limitations of models, and their implications, are explained to **users**. The **Generic TAS** on *Reporting Actuarial Information* requires that **material** limitations of the **data** are explained to **users**.

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 – RISKS AND UNCERTAINTY

E.2.1 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.2.2 The risks faced by a **pension scheme** in relation to its funding might include:

- the risk that the 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 differ from the returns available at the effective date of the calculations;
- 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.2.3 There are many ways of indicating the extent of uncertainty and risks, such as:

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

E.3 ASSUMPTIONS USED FOR TECHNICAL PROVISIONS AND STATEMENTS OF FUNDING PRINCIPLES

E.3.1 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.3.2 Section D.2 contains principles on assumptions.

E.3.3 **Aggregate reports** shall describe and explain the implications of different funding **methods** and **measures**.

E.3.4 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**.

E.3.5 **Aggregate reports** shall contain sufficient information to enable the **governing body** to fulfil its statutory duties in relation to setting assumptions and the funding strategy.

E.3.6 The information that is provided will 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.3.7 **Aggregate reports** shall include a comparison of the assumptions to be adopted for the calculation of the **technical provisions** with the the **solvency basis**.

E.4 TECHNICAL PROVISIONS, RECOVERY PLAN AND SCHEDULE OF CONTRIBUTIONS

E.4.1 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.4.2 **Aggregate reports** which include a prudent estimate of the value of the liabilities of a **pension scheme** shall include:

- a) an approximate **neutral** estimate of the value of the liabilities;
- b) an explanation of the relationship between the prudent and **neutral** estimates; and
- c) an explanation of a change to the relationship between the prudent and **neutral** estimates from the previous exercise, if any.

E.4.3 The level of detail and precision in estimates is a matter for judgement.

E.5 SCHEME FUNDING REPORT

E.5.1 Paragraphs E.5.2 to E.5.11 apply to the **Scheme Funding report**.

E.5.2 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.5.3 Information about complex matters should not be excluded on the grounds that it may be too difficult for some readers to understand.

E.5.4 The **Scheme Funding report** will need to include the information in paragraphs E.5.5 to E.5.10.

E.5.5 The information on data and information in the **Scheme Funding report** will need to include:

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

E.5.6 The 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.5.7 The 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 change in the **funding level** analysed by causes including changes in assumptions and scheme experience.

- E.5.8 The information on cash flows in the **Scheme Funding report** will need to include:
- projected cash flows for different categories of the membership (such as pensioners, former members and active members).
- E.5.9 The information on results and decisions in the **Scheme Funding report** will need to include:
- a summary of the results of the calculations; and
 - the contribution plan agreed as a result of the **Scheme Funding assessment**.
- E.5.10 The information on risk and uncertainty in the **Scheme Funding report** will need to include:
- a description of the risks to 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.5.11 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.6 TRANSFER VALUES

E.6.1 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.6.2 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.6.3 The comparison will need to include an explanation of the differences between the two sets of assumptions.

E.6.4 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.2.1 to E.3.7 and E.5.2 to E.5.11 shall apply to required funding assessments .
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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.2.4 References 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.2.5 The extent to which documents and requirements are analogous to those for **Scheme Funding** is a matter for judgement.

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