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Technical Actuarial Standard 300: Pensions

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Technical Actuarial Standard 300: *Pensions*

This standard should be read in conjunction with Technical Actuarial Standard 100: *Principles for technical actuarial work* (TAS 100) and the *Framework for FRC technical actuarial standards*. Terms in **bold** are defined in the *Glossary of defined terms used in FRC technical actuarial standards*.

Purpose

Technical Actuarial Standard 300: *Pensions* (TAS 300) promotes high quality **technical actuarial work** in pensions on matters where there is a high degree of risk to the public interest. TAS 300 supports the Reliability Objective that “**users** for whom **actuarial information** is created should be able to place a high degree of reliance on that information’s relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information”.

Scope of application

TAS 300 is applicable to the following **technical actuarial work** in the geographic scope of FRC technical actuarial standards¹:

Scheme funding and financing

Technical actuarial work required by legislation to support decisions on funding, contribution requirements or benefit levels

Technical actuarial work for an employer concerning 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

Factors for individual calculations

Technical actuarial work concerning the derivation of ***actuarial factors*** to be used in calculations which have a direct effect on the benefits for individual members of a ***pension scheme*** or the financial position of a ***pension scheme***

Incentive exercises

Technical actuarial work concerning an ***incentive exercise***

Scheme modifications

Technical actuarial work concerning any modifications, proposed or agreed, to a ***pension scheme*** which might affect members’ accrued benefits or the security of their accrued benefits

¹ The geographic scope of the FRC’s technical actuarial standards is limited to **technical actuarial work** done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation (paragraph 5.5 of the *Framework for FRC technical actuarial standards*).

Bulk transfers

*Technical actuarial work in connection with a **bulk transfer** of assets and liabilities to another **pension scheme** or an **insurer***

Debt calculations

The calculation of a deficiency of assets in accordance with section 75(5) of the Pensions Act 1995

Compliance

Members of the Institute and Faculty of Actuaries are required to comply with TAS 300 for work in its scope. Wider adoption is encouraged.

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

Work in the scope of TAS 300 is also in the scope of TAS 100. Each of the provisions in TAS 300 shall be followed where they are relevant to the work.

Departures from the provisions in TAS 300 concerning **communications** to **users** are permitted if they are unlikely to have a **material** effect on the decisions of **users**.

Nothing in TAS 300 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that **users** would be expected to obtain from the work.

Communications shall include a statement confirming compliance with TAS 100 and TAS 300.

Commencement date

This standard applies to **technical actuarial work** in the scope of TAS 300 which is completed on or after 1 July 2017.

Core provisions

The following provisions support the principles in TAS 100 and apply to all **technical actuarial work** within the scope of TAS 300.

Data

1. If there is any uncertainty, arising from legislation or scheme documentation, in how the benefits are calculated, the **data** sought for any exercise shall include any known relevant legal opinions in the possession of the client in relation to the **pension scheme**.
2. The **data** sought for any exercise shall include information about any relevant practice concerning discretionary benefits.

Assumptions

3. **Material** assumptions used shall, where appropriate, reflect the membership, benefit structure and financial features of the **pension scheme**.
4. **Communications** shall include the derivations of **material** assumptions used in the **technical actuarial work** and any limitations in the **data** used to derive those assumptions.

Communications

5. **Communications** shall include an explanation of any known **material** uncertainty, arising from legislation or the scheme documentation, in how benefits are to be calculated and how this uncertainty has been treated in the work.

Provisions for specified work

The following provisions support the principles in TAS 100 and apply to the relevant **technical actuarial work** as specified.

Scheme funding and financing

Assumptions

6. **Communications** shall include sufficient information to enable the **user** to understand the level of prudence in the assumptions and the resulting **actuarial information**.
7. **Communications** shall include an explanation of, and reason for, any **material** change in the level of prudence from the previous exercise.
8. **Communications** shall explain how the discount rates used, or proposed for use, compare with the return that can be expected from assets invested according to any stated investment strategy, including any anticipated changes in that strategy.
9. **Communications** shall explain how the return on assets assumed in a **recovery plan** compares with the return that can be expected from assets invested according to any stated investment strategy, including any anticipated changes in that strategy.
10. Where relevant, **communications** shall state if and how the assumptions used, or proposed for use, take account of employer covenant.

Statutory duties

11. **Communications** shall contain sufficient **actuarial information** to support the **governing body** in fulfilling its statutory duties in relation to funding and financing.

Risk assessment and future evolution of the scheme

12. **Communications** shall include sufficient **actuarial information** to enable the **governing body** to understand the **material** risks to the scheme in relation to its funding or financing and the future evolution of the scheme. The information that is provided shall include:
 - (a) an indication or description of future cash flows including their timing;
 - (b) projections of the **funding level**, or a description of how the **funding level** is expected to change over an appropriate time period(s) with an explanation of the choice of the time period(s); and
 - (c) an indication or description of the volatility of the future **funding level** and the major causes of the volatility.
13. **Communications** shall contain sufficient **actuarial information** to support the **governing body** in:
 - (a) understanding how funding and investment risks (and their interaction), or a change in employer covenant, could affect the **governing body's** funding and investment objectives; and
 - (b) managing a funding and investment strategy to achieve these objectives.

Reports of record

14. The **Scheme Funding report**, or equivalent report produced on the completion of a **required funding assessment** for **pension schemes** not subject to Part 3 of the Pensions Act 2004, shall be written so that an **informed reader** can understand the financial position of the **pension scheme**, including its development since the previous assessment and how it might change in the future.
15. The **Scheme Funding report** shall contain the information in Appendix A. This information is **material**; however the level of detail is a matter for judgement and information about complex matters should not be excluded on the grounds that it might be too difficult for some readers to understand.
16. The equivalent report produced on completion of the **required funding assessment** for a **pension scheme** not subject to Part 3 of the Pensions Act 2004 shall contain the information in Appendix A suitably interpreted for that scheme.

Factors for individual calculations

17. **Communications** shall include sufficient information to enable the **governing body** or other decision-making **entity** to understand the financial implications of adopting the **actuarial factors** to be used in the calculation of members' benefits. The information provided shall include:
 - (a) an indication of the financial impact of choosing different **actuarial factors** on the funding of the **pension scheme** and on the benefits of the members exercising options;

- (b) the rationale for differences between assumptions used for different **actuarial factors**;
- (c) the rationale for differences between assumptions used for **actuarial factors** and assumptions used for the **Scheme Funding assessment**;
- (d) the implications of changes in market conditions; and
- (e) the circumstances in which the **actuarial factors** should be reviewed.

Incentive exercises, scheme modifications and bulk transfers

18. **Communications** shall include sufficient **actuarial information** to enable the **governing body** or other decision-making **entity** to understand how different classes of members might be affected by an **incentive exercise, scheme modification or bulk transfer** to another **pension scheme** or an **insurer** (with or without members' consents). The information provided shall include:
- (a) the impact on different classes of members' benefits of adopting alternative assumptions;
 - (b) any changes in the **material** risks to the benefits of the different classes of members;
 - (c) any **material** changes to the cash flows to members resulting from the **incentive exercise, scheme modification or bulk transfer**; and
 - (d) the potential reduction in the value of the benefits of the different classes of members.

Approved on 7 December 2016

Version 1.0

Effective from 1 July 2017

Appendix A: Information to be included in the Scheme Funding report

The **Scheme Funding report** shall include the following material information:

- (a) information required by statute;
- (b) a description of the **governing body's** funding objectives and investment strategy;
- (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) a description of how the **funding level** on the **solvency basis** and on the **technical provisions** basis are expected to develop over the future.

Data and information

- (f) summary membership **data** including average ages;
- (g) a summary of the benefit provisions or a reference to a summary of benefit provisions which has already been provided to members; and
- (h) a statement of assets.

Methodology and assumptions

- (i) a description of the methodology used; and
- (j) a summary of the key assumptions including a comparison with those used in the previous **Scheme Funding assessment**.

Experience

- (k) a summary of experience since the previous **Scheme Funding assessment** including membership changes, contributions paid and investment returns;
- (l) a summary of significant events, including changes to benefits, that have taken place since the previous **Scheme Funding assessment**;
- (m) an explanation of the reasons for changes in the **funding level** from the previous **Scheme Funding assessment**; and
- (n) quantification of any significant change in the **funding level** analysed by causes including changes in assumptions and the experience of the **pension scheme**.

Results and decisions

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

Risk and uncertainty

- (q) a description of the risks to the financial position of the **pension scheme** and any actions taken to mitigate them; and
- (r) an analysis of the sensitivity of the results of the calculations to changes in key assumptions.



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