

To All Scheme Actuaries

July 2001

Dear Scheme Actuary

GN27 and MFR Specimen Calculations

The Board wishes to clarify a matter relating to the status of the Specimen Calculations¹. It has come to our attention that many scheme actuaries may believe that the steps inherent in those Specimen Calculations must always be strictly followed. That is not the case. Further, it should be borne in mind that GN27 itself is not prescriptive on all matters (for example, on some aspects of the calculations needed to confirm the adequacy of a schedule of contributions). In those circumstances, any steps set out in the Specimen Calculations indicate merely a procedure that may be followed, but not necessarily. Indeed, professional judgement may indicate that an alternative approach would be more suitable for the purposes of the scheme.

The following comments may help to clarify the situation:

- GN27 is a Practice Standard Guidance Note which has gone through Due Process and must always be followed, in accordance with the general PCS requirements relating to such guidance notes.
- GN27 has legislative backing in addition, so it must be followed as a requirement of the supporting legislation. Indeed statements confirming that GN27 has been followed are made by the scheme actuary on the various statutory certificates which are necessary under the MFR.
- Some parts of GN27 are prescriptive - they leave no room for professional judgement and the supporting calculation procedures as set out in the Specimen Calculations are intended to show the only practical application of such parts of the guidance.
- Other parts of GN27 on the other hand are permissive - they do leave scope for professional judgement taking into account the individual scheme circumstances. In these circumstances the Specimen Calculations set out practical applications of the guidance that are possible but not mandatory. Other approaches may be professionally acceptable.

¹ The Specimen Calculations were published in June 1996. A letter from the Chairman of the Pensions Board (Paul Thornton) was sent to all members advising of their availability. This letter is available on the website at www.actuaries.org.uk/pensions/gn27_0696_let.pdf. The Specimen Calculations are not available on the website but can be found in the BAJ (1997) 3: 1077-1084

- The Specimen Calculations have no status as formal professional guidance. They did not go through Due Process and were always intended merely as an amplification of the various requirements imposed by GN27 which were unfamiliar to actuaries when the guidance was first introduced.

In summary, the calculations needed by scheme actuaries for MFR purposes must be fully consistent with GN27 and the supporting legislation. Where professional judgement is permitted on a non-prescriptive part of GN27, the approach adopted should be professionally acceptable in the light of the scheme's own circumstances. In this respect, the approach set out by the Specimen Calculations need not be followed and, in some circumstances should not be followed.

Yours sincerely

Peter Tompkins
Chairman of the Pensions Board

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