

**February 2004**

**To: All Members**

Dear Member

**GN9: Funding Defined Benefits – Actuarial Reports**

**Introduction**

The main purpose of GN9 is to enable trustees to understand the expected future course of a scheme's contribution rates and the current solvency level and to ensure that actuarial valuation reports on the funding of a defined benefit pension scheme contain sufficient information. The guidance is intended to ensure that the methods and assumptions used are properly explained in the report and that variations between the assumptions chosen and actual experience are analysed.

**Detail**

Following consultation, the Board has completed the process of revising GN9 and version 7.0 will come into force on 20 March 2004. (Version 6.0 can continue to be used for valuations with earlier effective dates, provided that this is indicated in the report.) An explanation of the changes made to the exposure draft EXD 51 is given below.

- Despite some comments during the consultation that the scope of paragraph 1.4 was too wide, the Board has decided not to amend it. This is because the Board interprets the opening phrase “the actuary *may* need” as excluding immaterial augmentations or changes, and so no explicit materiality exemption was needed.
- Paragraph 1.7 has been amended along the lines suggested by one of the exposure responses and now requires any 3<sup>rd</sup> party limitations to be set out in the report. The Board expresses no view about the desirability of such limitations. The Board also noted that the actuary may have separately agreed restrictions on the use of the report with the trustees.
- A new requirement on the actuary has been introduced in paragraph 2.2.5. This is to state in the report that the primary responsibility for the accuracy of the data lies with the trustees. The Board believes this is not sufficiently material to require re-exposure.

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- In response to concerns expressed during the consultation process about the focus on solvency, the sections previously labelled “Funding Objectives”, “Valuation Assumptions and Methods”, and “Contributions” have been merged into a single section called “Funding” to emphasise the distinction between funding and solvency. The requirement to state the ‘ongoing’ funding level has also been re-introduced in paragraph 2.4.8. However, this is conditional: “Where the funding objectives set out in 2.4.1 include a target funding level”. The Board believes that the projected unit funding method is used in the great majority of cases and hence that a statement of the ongoing funding level will generally be required. The conditional clause also covers the reconciliation requirement. The Board expects that actuaries using objectives that do not include a target funding level would generally complete some reconciliation, but have not included a specific requirement to cover these rare cases.
- The Board plans to require reconciliation on the solvency basis for all schemes in the next revision of GN9.
- A reference to “parameters provided by an insurance company” has been introduced in paragraph 2.6.4 in response to requests during consultation.
- A requirement to include in the report a note about the approximate nature of the gilts – 0.5% calculation has been added to 2.6.4.5.
- The Board deleted “assuming the actual future experience reflects market levels and financial conditions at the valuation date” from (what is now) paragraph 2.6.6, to address concerns about how this phrase should be interpreted. The new requirement “The actuary must state the assumptions used” is much less prescriptive. The Board decided to revise this paragraph so that it left the assumptions to actuarial judgement.

The Board has reviewed the papers on funding and solvency issued at the same time as EXD 51. The Board has also issued the rationale for the adjustment to gilt yields of 0.5% that appears in the Guidance Note. All the supporting papers are at [www.actuaries.org.uk/link/pensions/gn\\_supportingpapers.html](http://www.actuaries.org.uk/link/pensions/gn_supportingpapers.html)

Supplements to the Manual of Actuarial Practice are now only being sent to those members who have previously requested them in writing. If therefore you have requested a posted copy of Guidance Notes, the revised version 7.0 of GN9 will be attached to this letter. From the effective date it can be found on the profession’s website at <http://www.actuaries.org.uk/files/pdf/map/contents.pdf>

Before then, it can be found at

[http://www.actuaries.org.uk/link/board\\_area/pensions.html](http://www.actuaries.org.uk/link/board_area/pensions.html)

A copy of version 7.0 of GN9 that tracks the changes which have been made since Version 6.0 can be found at

[http://www.actuaries.org.uk/link/pensions/pensions\\_gns\\_track.xml](http://www.actuaries.org.uk/link/pensions/pensions_gns_track.xml)

Yours sincerely

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Chairman  
Pensions Board

*Please reply to Institute, London*