



The Actuarial Profession

making financial sense of the future

consultation response

The Pensions Regulator

**Good practice when choosing
assumptions for defined
benefit pension schemes with
a special focus on mortality**

May 2008

Ms Peppi Knott
The Pensions Regulator
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Sent via email

12 May 2008

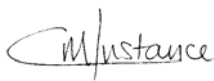
Dear Ms Knott,

Good practice when choosing assumptions for defined benefit pension schemes with a special focus on mortality

Thank you for providing The Actuarial Profession with the opportunity to comment on this consultation. Our substantive comments are attached to this letter.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us. Should you wish to do so, please contact Martin Hewitt, Pensions Practice Manager on 0207 632 2185 or via martin.hewitt@actuaries.org.uk.

Yours sincerely



Caroline Instance
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Good practice when choosing assumptions for defined benefit pension schemes with a special focus on mortality

The Actuarial Profession welcomes the opportunity to comment on this consultation. We are fully supportive of your aim to promote good practice when choosing mortality assumptions for defined benefit pension schemes. We too support the need for mortality assumptions to be, as far as possible, evidence based and clearly and transparently communicated.

We have not commented on the detailed questions in your paper, but instead set out below some general points for consideration which we believe address the main issues you have raised.

We note that your document is aimed at Trustees, but in a number of places appears instead to be aimed at providing guidance to actuaries advising on funding assumptions. In our view, the appropriate mechanism for delivering advice on mortality assumptions to actuaries would be through guidance from the BAS, and we note that BAS are running a parallel consultation on this subject.

In some places the document, as an advice note to Trustees, is potentially misleading in that it appears to downplay the degree of uncertainty surrounding appropriate future mortality assumptions. The nature of this uncertainty is addressed in the BAS discussion paper on actuarial mortality assumptions.

Schemes demonstrate different past rates of improvement in longevity and it is reasonable to suppose that there will also be differences between schemes in the future. In our view, these differences and the uncertainty over future improvement rates make the selection of a single projection for future mortality improvements as a trigger for all pension schemes difficult. Whilst it is clear that tPR will need some measure to assess whether the Trustees' chosen assumptions are reasonable, the proposed trigger could encourage the adoption of assumptions that were inappropriate for a particular scheme, having regard for example to the age profile of its members.

As you are aware, the profession does not believe it is possible to view any particular projection of future mortality improvements as necessarily "right", and this is why the CMI has chosen to produce a library of possible projections, rather than focussing on any one series for the "00" tables or for the SAPS tables.

For the same reason, we note that it is difficult to determine the degree of prudence to be associated with any particular mortality projection given the uncertainty surrounding future longevity improvements.

We believe that your aims of good practice might be better achieved by guidance stating that:

- Explicit assumptions should be made for the base table and for future improvements in mortality
- The amount of the allowance for future improvements should be clearly communicated to the Trustees using suitable metrics. The Profession's Research Group is currently

working on a project to devise the most appropriate metrics for such communication. This topic is also addressed in the BAS discussion paper.

- tPR could require the effect of the actual allowance for future improvements (expressed perhaps as a percentage of the technical provisions – separately for pensioners and non-pensioners would be an option) to be disclosed in submissions to the Regulator or in scheme returns; in this way tPR could still monitor appropriate allowances taking into account other relevant factors, such as the maturity of the scheme.

We agree with the proposal to encourage use of standard terminology and the CMI library where appropriate, to ensure clear communication (but only to audiences familiar with such technical terminology).

Finally, we note that whilst the mortality assumptions used must be based on prudent principles, the most significant assumption for most pension schemes remains the discount rate assumption. Prudence in this assumption is a requirement of the Regulations, and the key criterion for determining the appropriateness of any particular set of assumptions to determine Technical Provisions is that they are, taken as a whole, suitably prudent in the circumstances of the scheme.

We would be happy to discuss this further with you.