CHANGES TO THE SYLLABUS AND CORE READING FOR SUBJECT ST4 FOR THE 2018 EXAMINATIONS

Changes to the Syllabus and their impact on Core Reading

There have been no changes to the Syllabus.

Changes to Core Reading

UNIT 1 (Glossary)

The recommended reading has been amended to read:

The following papers may be particularly useful in widening understanding of the subject in preparation for the exam. They are not, however, part of the Core Reading and so the content of this reading is not directly examinable.

Financial Reporting Council (FRC) Technical Actuarial Standards:

Framework for FRC technical actuarial standards
Technical Actuarial Standard 100: Principles for Technical Actuarial Work
Technical Actuarial Standard 300: Pensions
Glossary of defined terms used in FRC technical actuarial standards

UNIT 5

The following text has been added to the top of the list of relevant cross-practice standards in Section 2.1 which now references three standards:

- **APS X1 – Applying Standards to Actuarial Work**

  Which sets out principles to be applied by members to determine which standards they must or should be applying to a piece of work, regardless of where they are located or whether the work is being carried out in the UK.

Section 2.2 has been amended to read:

2.2 Technical standards

Technical standards are generally the responsibility of regulators in the relevant territory. In the UK, technical actuarial standards are the responsibility of the Financial Reporting Council ("FRC"),. This is a body that is independent from the Actuarial Profession. The FRC produces and maintains Technical Actuarial Standards (TASs). The aim of the

TASs is to ensure that users of actuarial information can have confidence in "the information's relevance, transparency of assumptions, completeness and comprehensibility"

The UK Technical actuarial standards comprise:

- *TAS 100: Principles for Technical Actuarial Work*, and

- Three specific TASs covering actuarial work in relation to *Pensions*, *Insurance and Funeral plan trusts*.

The TASs should be read in conjunction with the *Framework for FRC technical actuarial standards*, and the *Glossary of defined terms used in FRC technical actuarial standards.*

The TASs are developed in the context of UK legislation and regulations. They apply to work done in relation to the UK operations of entities and any non-UK operations which report in to the UK. However, compliance with relevant TASs is one way in which members of the UK Actuarial Profession may address compliance with APS X1 (see 2.1) for non-UK actuarial work.

Work may depart from the requirements of a TAS if the departure is considered not to be *material*, In this context, matters are material if they could, individually or collectively, influence the decisions to be taken by the users of the resulting actuarial information.

Knowledge of the detailed technical content of actuarial standards is not required until the Specialist Application subjects.

UNIT 13

Section 4 has been amended to read:

4 Method of provision

If a benefit scheme is being discontinued, a number of options may exist for the provision of the outstanding benefit payments. Six examples are covered below:

4.1 Gradual removal of liabilities

Under this option, the scheme will continue but with no further accrual of benefits. Over time this will effect a gradual removal of the liabilities.

One potential benefit of this option is that costs associated with disinvesting and transferring assets may be reduced. However, there will be no guarantee that the discontinuance benefits are met because the cost of the benefits will still be affected by future investment and mortality experience. The scheme managers will still need to manage the risks in relation to funding, investment and sponsor covenant.

In respect of the covenant, the scheme sponsor may not be willing or able to make good any shortfalls arising in the scheme. Scheme managers may therefore wish to adopt a "self-sufficiency" approach. Broadly put, this is a funding strategy whereby the scheme has a very good chance of meeting its liabilities without further help from the sponsor. In practice, this means that:

- prudent assumptions are used for funding. The basis may be similar to the assumptions used for a buyout valuation but without the insurance company profit margins.

- a more cautious investment strategy is followed, for example investments such as government/corporate bonds, longevity swaps/bonds and annuities could be included.

One potential issue, in addition to deficits, is that surpluses may also arise. In practice it is difficult to ensure that members are treated equitably if surpluses are to be distributed. For example, only those beneficiaries who are still alive would benefit from surpluses arising in the future.

These risks and practical problems will increase as the scheme membership reduces. In practice, this option is unlikely to be used for very small schemes.

4.2 Transfer to another scheme with the same sponsor

Under this option the liabilities are transferred to another pension scheme with the same sponsor. This will only be possible if another such scheme exists.

In practice this can be thought of as similar to option 4.1 above, except that the surplus or deficits arising will apply to a larger group of individuals. Though this approach might reduce the impact of risks inherent in the smaller group, one potential disadvantage of this option is that of cross-subsidies. Surpluses arising from the smaller group of individuals may be used to benefit the larger group. From the viewpoint of the larger group, a disadvantage is that deficits arising from the smaller group are supported by the larger group as a whole.

4.3 Transfer directly to the beneficiary

Under this option the capital value of the benefits, or the funds, are transferred directly to the individual beneficiaries.

In practice, in many countries this is not possible, the alternative being to transfer the funds or capital value to an appropriate insurance company (see 4.4) or into the scheme or a new employer.

4.4 Transfer funds to an insurer to invest and provide the benefit

Under this option, the capital value of the benefit, or fund, is transferred to an appropriate insurance company and invested.

The ultimate benefit will then depend on the assumptions used to determine the capital value transferred and any future experience of that individual, such as investment return on the fund. As a result, the benefits may be greater or smaller than the original discontinuance benefit.

4.5 Transfer liabilities to an insurer to guarantee the benefit

Under option 4.5 the individual bears the risks such as investment, inflation and longevity. In some cases it may be preferred, or even required by legislation, to provide discontinuance benefits where the level of benefit is guaranteed.

In such cases the liabilities are transferred to a provider who will accept the risks of future experience and guarantee a benefit. Examples of this include immediate or deferred annuities with an insurer. Insurers will generally charge a premium loading for the risks taken on, for profits and to cover any statutory reserves they need to hold. Deferred annuities in particular carry a higher degree of risk and the premium charged may reflect this. In some cases, insurers may be unwilling to issue deferred annuities.

The additional cost associated with an insurer providing a guaranteed benefit may mean that the funds are not sufficient to provide the benefits that could have been targeted under one of the other forms of provision. The discontinuance benefits may therefore be lower than the original benefit.

Though these benefits are deemed to be guaranteed, they are still dependent on the financial strength, or covenant, of the insurer. In some territories, compensation schemes exist whereby beneficiaries are entitled to some form of benefit in the event of the insurer failing to meet the liabilities

4.6 Transfer to a central discontinuance fund

An alternative way of guaranteeing the benefits may be through a transfer of the funds to a central discontinuance fund. The discontinuance fund may provide the full benefit originally expected, or some other form of benefit such as a percentage of that originally expected, subject to certain limits.

The central fund may be funded by levies placed on all schemes. These levies could be based on the size of the scheme, or the degree of risk perceived on the scheme, perhaps in relation to its funding level or investment strategy. As such, the central fund may be possible to guarantee the benefits that would be expected to arise from the available funds.

The only other changes that have been made to the Core Reading are to correct typographical errors and improve the style.

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