



The Actuarial Profession

making financial sense of the future

consultation response

Board for Actuarial Standards

**Consultation on a Technical
Actuarial Standard
for Pensions (TAS P)**

October 2009

About The Actuarial Profession

The Actuarial Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London, the two professional bodies for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals, and advise on social and public interest issues. Members of the Profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Profession also has an obligation to serve the public interest and one method by which it seeks to do so is by making informed contributions to debates on matters of public interest.



Louise Pryor
The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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7 October 2009

Reference: IP/

Dear Louise

Consultation on a Technical Actuarial Standard for Pensions (TAS P)

The Profession welcomes the opportunity to respond to your Consultation covering proposals for a Technical Actuarial Standard which will set Principles for actuarial work in pensions.

Opening Comments

We note you seek comment on:-

- i. whether the purpose of TAS P will assist in meeting the Reliability Objective.
- ii. the Scope of TAS P, including the proposed extension of the Scope to actuarial work almost always carried out by actuaries as well as to Reserved Work, as defined by BAS¹.
- iii. Principles additional to those in the generic TASs on Data, Modelling and Reporting.
- iv. Principles for assumptions, where there is currently no generic TAS.
- v. Provision of information to scheme members

¹ At the time of writing Reserved Work is defined within the Scope and Authority document as work which entities are required by virtue of legislation or a legal obligation to have carried out, and further are required to have carried out by an actuary.

- vi. whether a separate TAS is required to cover 'actuarial comparisons' of member's benefits under specified circumstances e.g. potential bulk transfers, changes to scheme rules etc.
- vii. your proposals for dealing with the transition from adopted GNs, including views on the classification of certain matters as technical or ethical.

We have no strong view on point vi) but, as you suggest, can see merit in including such work within a TAS dealing with business arrangements.

Given our continued discussions on various matters, including the transition from GNs, our only comment on vii) is that we have no difficulty with the concept of including matters which might be construed as ethical within your Principles as long as they are aligned to our ethical Standards, with changes to TAS-P being considered in the light of any subsequent changes over time to our ethical Standards.

Hence our response focuses on your proposals relating to the proposed Principles and the Purpose and Scope of TAS –P.

Summary Response covering Purpose, Scope and Principles

- We suggest that further thought is given to defining the role of TAS P as distinct from the generic TASs (the proposed Purpose could equally be applied to all the TASs taken together). This may help in determining the split of content between the Pensions and generic TASs, and may help in drafting the pensions TAS.
- In particular, clarifying the roles of the generic TASs and the Pensions TAS may lead to a conclusion that some of the material proposed for inclusion in the Pensions TAS is better expressed as amplifying or illustrating in a pensions context principles set out in the generic TASs, rather than as new Principles. Above all care is needed to avoid ambiguity when amplifying or illustrating generic principles in a specific context.
- We believe further consideration should be given to the way that the Pensions TAS expresses the additional material in relation to Data, Modelling and Reporting, which are already considered by generic TASs. A Principle in the Pensions TAS covering a similar issue to an existing Principle in a generic TAS but in different words could cause difficulties. This problem is especially apparent where the BAS' principles-based approach is expressed in a rules-based language. We would welcome further discussion in this area.

- Whilst Reserved Work is clearly within Scope, great care will be required to ensure that the definition of any further work that is brought within scope covers only the intended work. For example, Appendix A to the Consultation Paper contains a discussion of what work is and is not Reserved Work. However what it does not cover is that work that is not “Reserved”, which the BAS does not intend to bring within scope, but which the wording used in the Consultation Paper could bring within scope by accident. For example "Work relating to transfer values" would cover a much wider range of work than the periodic advice to trustees on setting/reviewing the assumptions to be used to calculate statutory CETVs. We believe an extension of the definition to include work identified as „almost always carried out by actuaries’ will be difficult to define definitively.
- Recognising the importance of DC arrangements, we agree that Principles are required in this area and believe they should be incorporated within the Scope of TAS P.
- The new Principles for assumptions raise important questions which are core to all actuarial work. We note some of the Principles are also included in the more recently issued TAS for Insurance and suggest there may be merit in moving some Principles to an overarching generic TAS on assumptions.
- We believe that introducing comparators to explain the discount rate and terms such as best estimate and prudence may be valid for some purposes and in some circumstances. However, we believe these Principles should be widely drawn to permit the exercise of judgement on whether they should be used and which would best aid Users' understanding.
- We strongly recommend that the User definition distinguishes between the Primary User(s) who will provide input and take decisions on the work assignment and „Readers’ such as pension scheme members who may have some regard to the output of the material. We suggest that the needs of Readers might be best covered by considering their specific requirements, rather than defining their needs to be the same as those of the Primary Users.

The above points are amplified in the Appendix

We hope the above is helpful and look forward to working with you as you develop the TASs for actuarial work within pensions.



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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

Robert Hails
Chairman, Consultations Group, Pensions Practice Executive Committee

Please reply to Staple Inn

Appendix

The points summarised in the body of our letter are amplified here.

1. The Purpose of TAS-P

The overarching purpose of TAS-P is stated in Paragraph 2.3 viz. 'to assist the achievement of the Reliability Objective for work within its scope'.

2.3a) then amplifies by requiring sufficient information to be provided, where decisions are to be taken on

- i. the financing of a pension scheme
- ii. the payment of benefits (e.g. early retirement pensions)

However providing sufficient information is part of the Reliability Objective. Hence we believe that 2.3a) is unnecessary. It may be that the BAS is using this approach to give a broad indication of the Scope of the TAS, but if so the restriction to 'work within its scope' limits its usefulness.

Under 2.3b) calculations affecting payments to and from the pension scheme are to be accurate and fit for purpose. In our discussions with the BAS, we understand that this is to ensure that instructions, to those who carry out the calculations, are clear. We believe it is sufficient to capture this within a Principle such as that outlined in Principle 7.10. However as for 2.3a) the intent of the paragraph may just be to indicate the broad scope of TAS-P.

Without seeing the exposure draft it is difficult to comment further, but we are inclined to think that the Purpose should not include such references to Scope. Rather we believe it would be helpful to explain the interaction between the generic and specific TASs including for example comment on the drivers for additional Principles in the pension field.

1. Change in Scope

The proposal is that the Scope of TAS-P should be extended to include work which is almost always done by actuaries. The generic TASs will then also apply to this wider scope.

We have some difficulty with this concept. However it will be important to ensure that the definition clearly captures what is in and out of Scope for the different areas of work identified, given that the TASs are mandatory for actuaries.

We agree with the BAS that Principles for Defined Contribution (DC) as well as Defined Benefit (DB) arrangements should be covered by BAS Standards as this is an important and growing area within pension work. Although actuaries are not always involved in advising on the financing of DC arrangements, we would support this work coming within Scope following identification of appropriate Principles along the lines you suggest in paragraphs 4.36 and 4.37.

- **Additional Principles for Data, Modelling and Reporting**

We agree with the approach of identifying issues relating to Data, Modelling and Reporting which are specific to Pensions. We also support the intent of the Principles identified in these areas, but would welcome further discussion with you as it seem to us that:

- they need to be more widely drawn to allow greater exercise of judgement
- careful consideration is given to whether the additional material is genuinely a new Principle, or whether it represents amplification of an existing Principle in the generic TAS.

By way of a simple example, the first Principle is on Data and comes under the heading of **Sponsor Information**.

The Principle is that *'information should be sought from the sponsor on matters affecting benefits payable to members over which it has influence or control'*. However the Sponsor may have important information which he does not influence or control (e.g. opinions, historical information, trends within Scheme experience). Hence the Principle could refer to the need to seek information on matters affecting benefits or the financing of the scheme.

There may be benefit in also having a Principle covering **Trustee Information** which may link to the current procedural requirement that the Actuary agree with the Trustees an undertaking that the Trustees will report to the Actuary as soon as possible in the event of one of a list of circumstances specified by the actuary which may affect the financing of the scheme.

We would be happy to work with you as you consider the issues you have identified.

- **New Principles for assumptions**

This is a key area for actuaries and we would welcome further discussion with you. Our high level comments are that

- i. Some of the Principles could be more widely drawn. There may also be merit in producing a generic TAS to cover some of the Principles which seem to apply more generally to all areas of actuarial expertise. We note that some of the Principles within the recently issued TAS for insurance are the same or similar to those for the pension TAS.
- ii. We believe there should be more of a focus on the gaps between the assumptions (such as the real discount rate net of assumed inflation) which may be more important than for example providing a comparator with the nominal discount rate.
- iii. We believe that the BAS' suggestion of comparing a discount rate with a low risk rate could be helpful in some situations e.g. where the purpose of the assignment requires assumptions to be set in relation to the current investment strategy.

However in some situations it may be confusing and/or not relevant to make such comparisons but where used, clear explanation will be required. We also have reservation that such explanations will not be consistent whether within the field of pensions or more widely across all areas of actuarial expertise.

Our reservations are founded on the fact that the term, low risk rate, is itself subject to some interpretation and judgement, and consequently should not be tightly defined by BAS. Further there is a danger that the client/user obtains the impression that two absolutes are being compared rather than two ranges or sprays (to use the BAS Chairman's words in the consultation for an Insurance TAS).

- iv. We have similar reservations with the BAS' suggestion to compare Best Estimate with a Prudent Estimate.

- **Proportionality, Materiality and Users**

We look forward to working with you on raising awareness of the Principles within the TAS and see this as an opportunity to illustrate the proportionality and materiality Principles.



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As covered in earlier responses to the TASs we believe it will be important to define Primary Users as the person(s) required to take decisions on the actuarial work being presented. Although other interested parties may have a right to see the work, if they are included in the definition of users, we believe the impact of the Standards will be diluted with a danger of being misapplied. Hence we believe there is a need to distinguish between the Primary User(s) who will provide input and take decisions on the work assignment and those who may be defined as „Readers‘ such as members of pension schemes who may have regard to the output of the material.

We suggest that separate requirements are included to address the specific needs of defined groups of other Readers where applicable, rather than assuming that the general requirements of generic and specific TASs are appropriate to such Readers.