

David Turner

Technical Actuarial Standards – Impact on Pensions advice

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The Background

- Equitable Life failure
- Lord Penrose's inquiry **(Aug 2001 - Dec 2003)**
- Morris review recommended "independent oversight" **(Mar 2005)**
- Financial Reporting Council (FRC) asked to do this
- Actuarial Profession and FRC agree a "Memorandum of Understanding **(May 2006)**
  - Board for Actuarial Standards created and takes over responsibility for technical matters
  - Profession retains responsibility for ethical matters

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What have BAS done so far?

- Adopted Institute's technical Guidance Notes (2006 and 2007)
- Developed a "Conceptual Framework" (Jul 2008)
- Produced a "Scope and Authority" for Technical Actuarial Standards (TASs) (Jul 2008)
- Developed 3 Generic TASs
  - Reporting (Sep 2009)
  - Data (Nov 2009)
  - Modelling (Apr 2010)
- Developed a specific Pensions TAS (Oct 2010)
- Developing a Transformations TAS
- Produced an "Answers to FAQs for Practitioners" (October 2010)

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Penalties for breaching the guidance

Depend on severity of breach:

- Admonishment
- Fine
- Suspension
- Expulsion



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Generic TASs

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Generic TASs - Scope

- Cover all “Reserved work” and work covered by the specific TASs

“Reserved work” is:

- *work for a UK entity (or one which reports to a UK entity)*
- *which is required by legislation or some other legal document*
- *that must be carried out by an individual who is subject to the Profession’s disciplinary scheme(ie a Fellow, Associate or Student of the Institute or Faculty of Actuaries)*

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Examples of Reserved work

- Scheme funding advice to trustees
- FRS17 Assumptions advice? (BAS say not because FRS17 refers to “actuary” rather than “Actuary”!)
- CETV advice to trustees
- S75 debt advice to Trustees
- PPF valuations
- Advice on actuarial factors (only if rules require actuarial advice to be taken before determining these and presumably only if “Actuary” is defined sufficiently narrowly!!)

Materiality

• The Scope and Authority permits non-compliance with TASs if the departure does not have a material effect

"A matter is material if, at the time the work is performed, it (or information resulting from it) could influence the decisions to be taken by users. A matter that is immaterial when considered in isolation may be material when considered in conjunction with others"

My comment: "Not sure this helps much!"

Proportionality

"The BAS believes that it is extremely important that actuaries… do not act disproportionately…. It believes that the best way of ensuring this is to explain that BAS standards should not be interpreted disproportionately"

My comment "This helps a lot"

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Reporting TAS

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Reporting TAS

Effective from 1 April 2010

Purpose is to ensure that in the reporting of work within its scope:

- Sufficient information is included to enable users to judge the relevance of the contents of the reports;
- Sufficient information is included to enable users to understand the implications of the contents of the reports; and
- Information is presented in a clear and comprehensible way

My Comment: "**Ultimate purpose is to enable clients (and other users) to make informed decisions based on the advice provided."**

Aggregate and component reports

- Aggregate reports must satisfy quite onerous requirements
- An “aggregate report” is the information provided to a user which is material to a particular decision
- It doesn’t need to be a single document, it can be made up of a number of “component reports” provided that the components are specified clearly
- “Component reports” need only state their purpose, the addressee and be comprehensible

Oral advice

- Oral advice to be confirmed in writing
- Potentially onerous requirements for relatively minor work
- Proportionality opt out:

“An aggregate report shall be proportionate to the scope of the decision or piece of work to which it relates and the benefit users would be expected to obtain from the information contained in it, striking a balance between the interests of those who pay for the report and the users.”

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Reporting TAS – key requirements

- Statement of report's purpose, who commissioned it and who is expected to take decisions based on it
- Details of relevant previous advice
- Explanation of whether results are the outcome of a "planning exercise", a "valuation exercise" or some other exercise
- Statement of which TASs apply and whether the work complies and details of any material departures
- An indication of any material changes since the effective date
- A description of the data used
- The nature and objective of any calculations

Reporting TAS – more key requirements

- The rationales for:
  - any material assumptions used or recommended
  - any differences between assumptions used or recommended in different parts of the work; and
  - the measures and methods used in any material calculations

- An indication of the nature and extent of any uncertainty about assumptions or results
- A statement of the nature and significance of material risks
- An indication of the nature and timing of future cashflows

Reporting TAS – more key requirements

- An explanation of how any probabilities have been derived
- A comparison with a previous comparable exercise (if applicable)
- Definitions for terms which are not uniquely defined such as “best estimate”, “central estimate” and “prudent”

Also

- Material which would obscure the information needed to make the decision should not be included
- If the author becomes aware that the report is not understood by any user he/she should provide clarification or correct misunderstandings

Example 1 – GN16 Certificate

- **Is it Required Work?** – Yes, transfer without consent not permitted without it
- **Is it Reserved Work?** – Yes, can only be produced by actuary (actually scheme actuary)

Therefore Generic TASs apply

What decision does it assist?

- It does not in itself provide input to any decision. The advice on whether to agree to transfer is in a separate document

What content is material?

- None - because it is a standard certificate with prescribed wording

But note that when the Transformations TAS comes into force, advice to the Trustees on whether to agree to the transfer will be caught.

Example 2 – Annual Actuarial Report

- **Is it Required Work** – Yes, Trustees required to obtain every year
- **Is it Reserved Work** – Yes, can only be produced by actuary (actually scheme actuary)

Therefore Generic TASs apply

What decision does it assist?

Either:

- Trustee decision as to funding Information to be given to members in Summary Funding Statement; or
- Trustee decision to commence consultation with employer regarding contributions paid; or
- No decisions assisted (on the grounds that the report is normally produced so long after its effective date that it is too late to make decisions based on it)

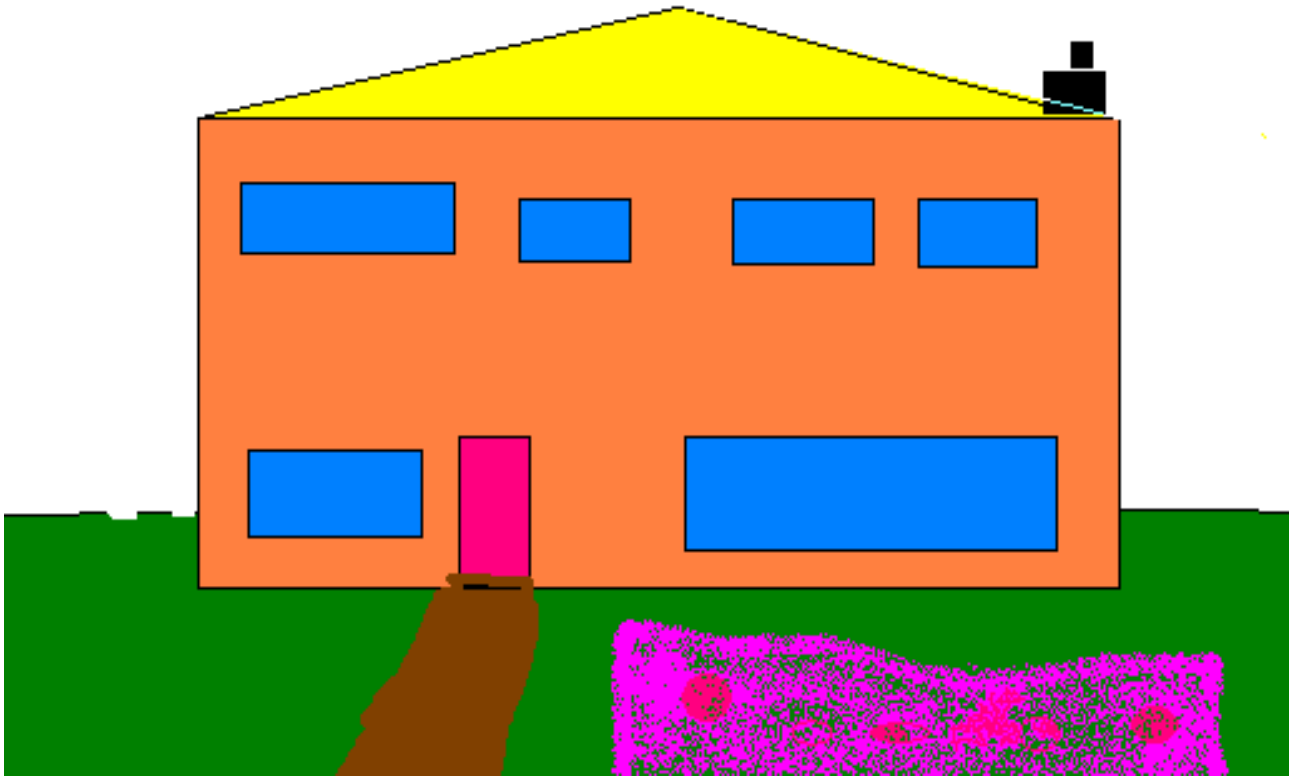
Example 2 – Annual Actuarial Report (continued)

What content is material?

- Depends on interpretation:
  - If decisions are made on it, the material issues are contained in the funding valuation report rather than the Annual Actuarial report itself
  - If no decisions are made on it, then none of the content is material

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Getting your house in order



TAS R checklist

Ref	TAS R requirement	
C.2.3	**Component reports clearly specified**	**n/a**
C.3.1	**Sufficient information for users to judge relevance to their decisions**	**n/a**
C.3.3	**Statement of purpose, users, who commissioned the work and addressee**	**n/a**
C.3.7	**If monetary amounts are calculated, statement of whether planning/valuation/other exercise**	**n/a**
C.3.11 a)	**State which TASs apply to the work carried out and whether complied with**	**n/a**
C.3.11 b) c)	**State any other TASs complied with**	**n/a**
C.3.11 d)	**Give particulars of material departures from the TASs**	**n/a**
C.3.13	**Indicate material changes or events to have occurred since the effective date**	**n/a**
C.4.1	**Describe any data/info used and source**	**n/a**
C.4.3	**Describe any material uncertainty over accuracy of data and explain approach to this**	**n/a**
C.4.4	**State material assumptions and any differences between different parts of work**	**n/a**
C.4.6	**Describe the rationales for: any material assumptions; any difference in assumptions; methods**	**n/a**
C.5.1	**Include all material matters**	**n/a**
C.5.2	**Indicate the nature and extend of any material uncertainty**	**n/a**
C.5.5	**State the nature and significance of each material risk or uncertainty and explain approach taken**	**n/a**
C.5.8	**For material calculations state nature and objective, specific measures and methods used**	**n/a**
C.5.10	**Indicate the nature of any future cashflows being quantified, including their timing**	**n/a**
C.5.13	**The intended meaning of any probabitilies included and the nature of statistics on which based**	**n/a**
C.5.17	**Include specified comparisons with previous similar report**	**n/a**
C.5.20	**Indicate the projected results from future calculations, if performed regularly**	**n/a**
C6.1	**Style, structure and content suited to users**	**n/a**
C.6.4	**Clarification of any misunderstanding provided**	**n/a**
C.6.6	**Exclude non-material information if it obscures material information**	**n/a**
C.6.8	**State intended meaning of terms not uniquely defined (eg best estimate)**	**n/a**
C.6.10	**Explain what results are intended to represent**	**n/a**

Main changes to Aon Hewitt standard valuation report - 1

Introduction

I have carried out an actuarial valuation of the XYZ Holdings Pension Scheme at 31 March 2009.

The valuation exercise reviews the financial position of the Scheme as a going concern, and reviews the financial position if the Scheme were discontinued at the valuation date, and In addition, it helps establish what actions should be taken by the Trustees and Company including determining the contributions payable by the Company to the Scheme (which is essentially a planning exercise).

Appendix A – Professional Guidance

Before making any decisions based on this report you should ensure that you have reviewed:

My terms of reference paper, dated DD

[My terms of reference for the experience investigation, dated DD]

[My report on the experience investigation, dated DD]

[My report on the yield curve approach to valuations, dated DD]

My report and presentation on method and assumptions, dated DD and DD]

[Other component reports, as appropriate]

These documents, together with this report, are required to and do comply with the Board for Actuarial Standards' Technical Actuarial Standard on reporting actuarial information.

If you require further copies of any of these documents please let me know.

Glossary

Best estimate assumptions are those which, if the Fund continues on an ongoing basis, are just as likely to understate as to overstate the amount of money actually required to meet the cost of the benefits (based on the investments held).

Prudent assumptions are those which, if the Fund continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits (based on the current investment strategy).

Additions to an ad hoc report

- Cross references to all previous advice relevant to the decision
- Statement that advice and work relating to it complies with TASR and TASD

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Data TAS

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Data TAS

Effective from 1 July 2010

Purpose is to ensure that:

- Data used in work within its scope is subject to sufficient scrutiny and checking so that users can rely on the resulting actuarial information
- any actions taken to mitigate inaccuracy or incompleteness of data increase the reliability of the resulting actuarial information

Data TAS - Key points

- Need to document data including
  - definitions
  - objectives of checks performed
  - outcomes of checks

- Checks should determine whether data is sufficiently accurate, relevant and complete for the actuarial information that depends on it to meet the needs of the user
- Incomplete or materially inadequate data can be adjusted or supplemented
- Actions taken to do so, must be documented
- No margins are to be incorporated, unless specifically required

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Modelling TAS

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Modelling TAS

Effective from 1 April 2011

Purpose is to ensure that if actuarial information is based on models it:

- includes explanations of the purpose the models are intended to serve, how the inputs to the models are derived and what the outputs from the models are intended to represent; and
- includes explanations of the significant limitations of the models;

and the models:

- sufficiently represent those aspects of the world that are relevant to the decisions for which the actuarial information will be used; and
- are fit for purpose both in theory and in practice

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Modelling TAS – Key points

- Documentation shall:
  - contain enough detail for a technically competent person with no previous knowledge of the model being documented to understand the matters involved and assess the judgements made;
  - include a statement of its purpose; and
  - be clear, unambiguous and complete for its purpose
- Models shall be no more complex than can be justified
- Documentation shall include statements of the assumptions used in a model
- Implementations and realisations of models shall be reproducible

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Modelling – more key points

- Documentation shall include:
  - the objectives of the checks that have been performed on the model; and
  - records of the outcomes of the checks
- Documentation shall include
  - explanations of the ways in which the theoretical construct and implementation are satisfactory representations of reality; and
  - a quantitative analysis of the predictive properties of any models that are intended to be used for prediction
- Must describe limitations

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Pensions TAS

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Pensions TAS

Effective from 1 April 2011

Purpose is to ensure that for work within its scope:

- Users of actuarial information are provided with sufficient information to enable them to make decisions which relate to the financing of, and benefits payable from, pension schemes
- Actuarial calculations which result in payments to or from pension schemes are performed correctly and are carried out using methods and measures and assumptions which are fit for purpose

Pensions TAS - Scope

Extends the scope of the Generic TASs to include the following:

- certain advice to trustees regarding investment strategy
- Advice to trustees on actuarial factors, rule changes, bulk transfers and winding-up (even if the TD&R do not require this to be provided by an actuary)
- Advice to employers on Scheme Funding
- DC projections
- accounting work (both assumptions and results and under FRS17 and IAS19)

Pensions TAS

Most interesting point:

- Requires disclosure of “neutral” estimate of liabilities in Scheme Funding exercises
- “A neutral measure, assumption or judgement is one that does not incorporate any adjustments to reflect matters such as the desired outcomes…”
- What does this mean?
- Q&As issued recently help (a bit)

Transformations TAS

Likely to be effective from 1 October 2011

Purpose is to ensure that for work within its scope:

- Users of actuarial information who make decisions on:

1. the transfer of assets and liabilities; or
2. the modification of liabilities

are provided with sufficient actuarial information to enable them:

1. to make an informed decision; and
2. to assess the impact on beneficiaries

Transformations TAS - Scope

Likely to extend the scope of the Generic TASs to include actuarial advice on a change in the terms underlying the accrued benefits of some or all of the members or a pension scheme without the consent of those members.

TASs and GN 48

The Profession wrote to Members on 20 October 2010 and stated:

“The Reviewer must consider the question of TAS compliance in the course of conducting a GN48 review”

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Questions?



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