



Jay Harvey

24 November 2010

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

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" (Oct 2010)

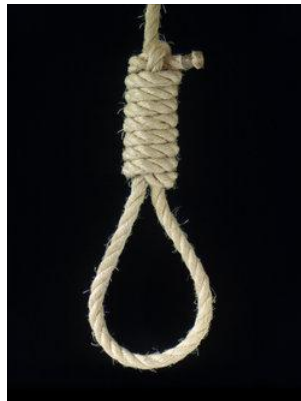
3



Penalties for breaching the guidance

Depend on severity of breach:

- Admonishment
- Fine
- Suspension
- Expulsion



4





Generic TASs

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Generic TASs - Scope

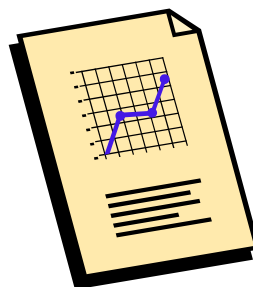
Cover all **“Reserved work”** and work covered by the specific TASs

“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(i.e. a Fellow, Associate or Student of the Institute or Faculty of Actuaries)

Examples of Reserved work

- Scheme funding advice to trustees
- FRS17 Assumptions advice?
- CETV advice to trustees
- S75 debt advice to Trustees
- PPF valuations
- Advice on actuarial factors?



7

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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...”

8

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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"

"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."

My comment: "These help a lot"

9

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Reporting TAS (Effective from 1 April 2010)

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Purpose

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.”

11

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Aggregate and component reports

An “**aggregate report**” is the information provided to a user which is material to a particular decision

- An aggregate report must satisfy quite onerous requirements
- 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

A “**component report**” need only state its purpose, the addressee and be comprehensible

12

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Oral advice

Oral advice must be confirmed in writing

- Potentially onerous requirements for relatively minor work
- Proportionality “opt out”



13

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Key requirements (1)

- 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

14

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Key requirements (2)

- 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

15



Key requirements (3)

- 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”

In addition...

- 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

16



Example 1 – GN16 Certificate

Is it required work?

Is it reserved work?

What decision does it assist?

What content is material?

17



Example 2 – Annual Actuarial Report

Is it required work?

Is it reserved work?

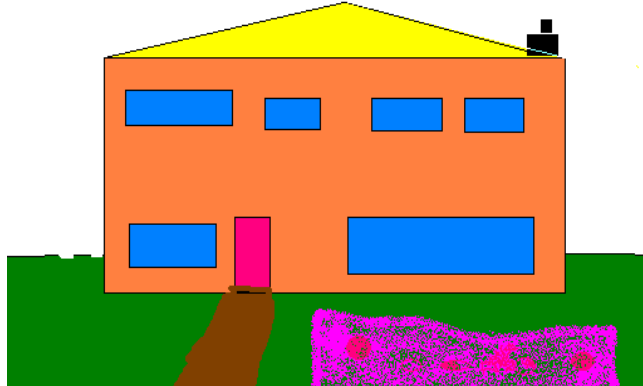
What decision does it assist?

What content is material?

18



Getting your house in order



19

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TAS R “checklists” – to “box tick” or to not “box tick”?

Ref	TAS R requirement
C.2.3	Component reports clearly specified
C.3.1	Sufficient information for users to judge relevance to their decisions
C.3.3	Statement of purpose, users, who commissioned the work and addressee
C.3.7	If monetary amounts are calculated, statement of whether planning/valuation/other exercise
C.3.11 a)	State which TASs apply to the work carried out and whether complied with
C.3.11 b) c)	State any other TASs complied with
C.3.11 d)	Give particulars of material departures from the TASs
C.3.13	Indicate material changes or events to have occurred since the effective date
C.4.1	Describe any data/info used and source
C.4.3	Describe any material uncertainty over accuracy of data and explain approach to this
C.4.4	State material assumptions and any differences between different parts of work
C.4.6	Describe the rationales for: any material assumptions; any difference in assumptions; methods
C.5.1	Include all material matters
C.5.2	Indicate the nature and extend of any material uncertainty
C.5.5	State the nature and significance of each material risk or uncertainty and explain approach taken
C.5.8	For material calculations state nature and objective, specific measures and methods used
C.5.10	Indicate the nature of any future cashflows being quantified, including their timing
C.5.13	The intended meaning of any probabilities included and the nature of statistics on which based
C.5.17	Include specified comparisons with previous similar report
C.5.20	Indicate the projected results from future calculations, if performed regularly
C.6.1	Style, structure and content suited to users
C.6.4	Clarification of any misunderstanding provided
C.6.6	Exclude non-material information if it obscures material information
C.6.8	State intended meaning of terms not uniquely defined (eg best estimate)
C.6.10	Explain what results are intended to represent

20

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Main changes to Aon Hewitt standard valuation report - 1

Introduction

I have carried out an actuarial valuation of the XYZ 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. 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).

21



Main changes to Aon Hewitt standard valuation report - 2

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 Standards on reporting actuarial information and data.

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

22



Main changes to Aon Hewitt standard valuation report - 3

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).

23



Additions to “ad hoc” reports

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

24





Purpose

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



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

27

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Modelling TAS (Effective from 1 April 2011)

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Purpose

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
- Explanations of the significant limitations of the models

And the models themselves:

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

29



Key points (1)

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
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- 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



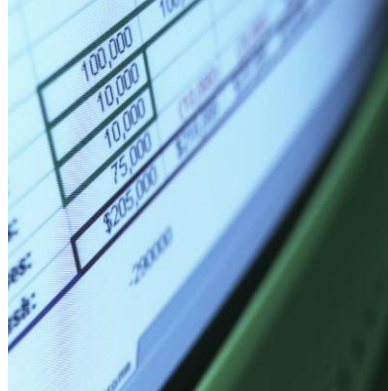
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Key points (2)

Documentation shall include:

- The objectives of the checks that have been performed on the model
- Records of the outcomes of the checks
- Explanations of the ways in which the theoretical construct and implementation are satisfactory representations of reality
- A quantitative analysis of the predictive properties of any models that are intended to be used for prediction



Must describe limitations

31

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Pensions TAS (Effective from 1 April 2011)

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Purpose

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



33

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Scope

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

- 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)

34

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Most interesting point?

For scheme funding exercises, requires disclosure of estimate of value of liabilities using same assumptions as for technical provisions, but with margins for prudence removed

35



Other key points...

Need to:

- comment on appropriateness of assumptions used
- explain any change in rationale underlying assumptions
- explain how discount rates were derived, implications of adopting discount rates and cash flows that are being discounted
- explain how discount rate compares to expected return on assets
- split out mortality assumption into base rate and allowance for future improvements
- seek information concerning discretionary benefits
- seek information obtained on uncertain benefits
- provide clear instructions when specifying how to calculate benefits
- enable trustees to make an informed decision regarding actuarial factors
- compare CETV assumptions with those used for technical provisions
- seek materiality levels for accounting purposes

Also, there are detailed requirements for pension schemes subject to part 3 of the Pensions Act 2004

36





Transformations TAS (Effective from 1 October 2011?)

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Purpose

To ensure that for work within its scope, users of actuarial information who make decisions on:

- the transfer of assets and liabilities; or
- the modification of liabilities

are provided with sufficient actuarial information to enable them:

- to make an informed decision; and
- to assess the impact on beneficiaries



38

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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.

39



TASs and GN48

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"



40



Questions?

41



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