

## The Role of the Actuary

Caroline Pearson, Punter Southall & Co  
24 November 2006

---

---

---

---

---

---

---

---

## The Role of the Actuary

“It is not the strongest of the species that survive,  
nor the most intelligent, but the one most  
responsive to change.”

Charles Darwin (1809 – 1882)

---

---

---

---

---

---

---

---

## Outline

- Background
- Responsibilities of the Actuary
- Actuarial advice: where to start?
- Tricky issues
- Conclusions

---

---

---

---

---

---

---

---

## Background

### Statutory funding objective

*Sufficient and appropriate assets to cover technical provisions*

Key elements:

- Statement of funding principles
- Schedule of contributions
- Recovery plan (if applicable)
- Prudent assumptions

---

---

---

---

---

---

---

---

## Background (continued)

### Funding = Trustee responsibility

...having taken advice from the actuary and reached agreement with the employer (usually)

---

---

---

---

---

---

---

---

## Responsibilities of the Actuary

Trustees must obtain advice:

- on methods & assumptions to calculate technical provisions
- when preparing or revising a
  - Statement of funding principles
  - Schedule of contributions
  - Recovery plan

---

---

---

---

---

---

---

---

## Actuarial advice: where to start?

- Professional conduct standards
- GN49
- Pensions Regulator's code of Practice
- GN9

*Trustees not required to follow advice*

---

---

---

---

---

---

---

---

## Actuarial advice: where to start?

- Discuss scope of advice
- Explain peer review
- Oral advice followed up in writing
- Still need to be proactive

---

---

---

---

---

---

---

---

## Tricky issues?

### Role of the Actuary

- *Teacher rather than adviser?*
- *Calculation machine?*
- *Will Trustees still want recommendations?*

---

---

---

---

---

---

---

---

## Tricky issues? (continued)

### Prudent assumptions

- *What is prudent?*
- *Margin over best estimate?*
- *Equity out-performance?*
- *Future changes in assumptions?*

---

---

---

---

---

---

---

---

## Tricky issues? (continued)

### Discount rates & inflation

- *ERP: is there one? how much? how to justify?*
- *different discount rate for TP/RP?*
- *choice of gilt yields?*
- *setting inflation assumption?*

---

---

---

---

---

---

---

---

## Tricky issues? (continued)

### Mortality

- *Use latest available data?*
- *Regulator's statement*
- *Adjust standard tables?*

---

---

---

---

---

---

---

---

## Tricky issues? (continued)

### Regulator triggers

- *Regulator's statement May 2006*
- *Triggers not targets*
- *Emphasis?*

---

---

---

---

---

---

---

---

## Tricky issues? (continued)

### Actuary sets the contribution rate

- *Relatively rare?*
- *Actuary recommends minimum contribution*
- *Take legal advice?*

---

---

---

---

---

---

---

---

## Conclusions

- *change of approach for actuaries?*
- *greater understanding of funding for trustees?*
- *more cautious funding assumptions adopted?*

---

---

---

---

---

---

---

---