Institute
and Faculty
of Actuaries

Consultation on assumptions to be used for valuations under section 143 and section 179 of the Pensions Act 2004

IFoA response to Pension Protection Fund

21 September 2018

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues. To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to Government, policymakers, regulators and other stakeholders, in order to shape public policy.

Actuarial science is founded on mathematical and statistical techniques used in insurance, pension fund management and investment. Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and this long term view is reflected in our approach to analysing policy developments. A rigorous examination system, programme of continuous professional development and a professional code of conduct supports high standards and reflects the significant role of the profession in society.

Richard Williams
Head of Corporate Affairs
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon
Surrey
CR0 2NA

21 September 2018

Dear Richard,

IFoA response to 2018 Consultation on assumptions to be used for valuations under section 143 and section 179 of the Pensions Act 2004

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Pension Protection Fund's (PPF) consultation on changes to the assumptions for s143 and s179 valuations. Members of the IFoA's Pensions Consultations Sub-Committee and Pensions Board have contributed to this response.

2. The IFoA supports the approach taken by the PPF in updating the assumptions to reflect changes to the buy-out market. Whilst we would not expect the PPF to compromise the stability of the valuation regime by making frequent changes to the assumptions, we do support a review from time to time to ensure their ongoing suitability.

3. We are supportive of the proposed approach and in particular the move to the CMI2016 projection model, however there is one issue which we believe requires further consideration around accessibility to the buy-out market.

4. Access to a competitive buy-out market will vary depending on the size of scheme. Whilst making the assumptions more optimistic may better reflect the position for a medium size scheme, it could lead to an increased number of smaller schemes being overfunded on s143, yet unable to secure a similar level of benefits through the insurance market. Similarly, the very largest schemes may also struggle to achieve sufficiently competitive pricing. We note however, that the "model scheme" is based on the typical profile of the schemes which in practice enter the PPF.

5. While we appreciate the need for simplicity, and the PPF's key principle to err on the side of understating liabilities, we believe the different outlook for different sized schemes should at least be acknowledged, even if that is by way of an explicit decision to ignore that difference.

6. In relation to question four, the section 143 calculations are relatively complex and we agree that this is appropriate in the context of the importance of PPF entry conditions being managed with precision. We are less convinced of the need for such complexity in section

179 calculations where the need for precision in sharing the levy reasonably between one scheme and another is much lower.

7. Finally with reference to question six, large and medium-sized schemes are typically advised by large and medium-sized consulting firms, where using a yield-curve approach for interest and inflation would be unlikely to cause any material operational issues. We have not had the opportunity to survey smaller schemes or smaller consulting firms to understand the extent to which they would experience material operational issues. In view of the large number of schemes that are relatively small, we encourage the PPF to be confident about their situation before introducing any yield-curve methodology.

8. Should you have any questions, or wish to discuss our response in more detail, please contact Henry Thompson, Policy Manager (Henry.Thompson@actuaries.org.uk).

Yours sincerely,

M. Ngwenya

Marjorie Ngwenya
Immediate Past President, Institute and Faculty of Actuaries