



ASSOCIATION OF CONSULTING ACTUARIES

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The Director of Actuarial Regulation
Financial Reporting Council
8th Floor,
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London
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Dear all

Technical Actuarial Standards for Pensions

I am writing on behalf of the **Association of Consulting Actuaries** in response to the consultation on the proposed version 2.1 of Technical Actuarial Standards 300: Pensions.

I have summarised some of the key points detailed in the consultation response below.

1. The standard needs to reflect the underlying legislative requirements, so we do not believe that resilience of the low dependency funding basis (LDIA) should fall in scope of TAS 300 (although TAS 100 would of course continue to apply). P2.3 should also be updated to remove the reference to prudence. (*See our response to Q3.*) In addition, P2.13 needs to change to recognise that it is the Trustee not the Actuary who decides on the allowance for new entrants and new accrual in the significant maturity calculation. (*See our response to Q9.*)
2. We suggest updating the wording for P2.1 and P2.5 to remove the reference to “level of prudence”. Legislation does not require trustees to obtain quantification of prudence for each assumption, and we believe the current wording included in the exposure draft of TAS 300 v2.1 suggests prudence is a unique and quantifiable amount, which is not the case. (*See our response to Q1.*) Similarly, we recommend the “level of” wording is removed in P2.12 when referring to the “level of risk”. (*See our response to Q3.*)
3. We do not think inclusion of surplus consulting within Section 4 (Benefit alterations or other activities) is appropriate, due to how this section is titled (meaning the underlying definition needs to be checked before it is obvious that this section applies to surplus consulting) and due to the factors relevant for consulting around use of surplus differing materially for benefit alterations. (*See our response to Q14.*)
4. Additions to Appendix A: Information to be included in the Scheme Funding report should be minimal, reflecting the compliance-nature of this report within the valuation process. In

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particular, description of the new Funding and Investment strategy should be removed from this appendix owing to this not being available to members with deliberate intent by DWP. *(See our response to Q10.)*

5. Pre 22 September 2024 valuations should be exempted from compliance with the new TAS 300 v2.1, and TAS 300 v2.0 should continue to apply to those valuations. We see no value and only a compliance burden of requiring pre 22 September 2024 valuations to complete their valuation process reflecting the updated TAS 300 v2.1. *(See our response to Q16.)*
6. The standard should come into effect 6 months after publication in order to comply with the FRC's stated objective to allow the efficient orderly completion of valuations spanning the release of the updated TAS. We do not believe delaying the timeframe for compliance with TAS 300 v2.1 will cause any material detriment to actuarial advice or decision making taken in the interim and will prevent unintended consequences potentially arising from a 1-month period between publication and the effective date (such as documents already drafted needing to be updated to reflect meeting/signing dates). *(See our response to Q16.)*

Our detailed comments on your questions are set out in the Appendix.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In this event, please contact me at abigail.fletcher@xpsgroup.com.

Yours sincerely

Abigail Fletcher

On behalf of the Association of Consulting Actuaries Limited

PSG Oversight/TAS 300

Specific consultation questions

1. **What are your views on the proposed changes to provisions in relation to the level of prudence in assumptions? Should TAS 300 include further requirements in relation to setting or communicating the level of prudence in assumptions? Should TAS 300 include additional provisions relating to the risk of excessively prudent assumptions being used in actuarial valuations? Please give reasons for your response.**

Proposed changes regarding setting/communicating level of prudence in assumptions

The legislation requires trustees to use prudent assumptions for technical provisions but does not require trustees to obtain quantification of prudence for each assumption or for this to be communicated. We note both the existing and exposure draft TAS 300 give a restrictive definition of “prudence”, referring to the application of margins within assumption setting.

In practice this application of margins would not always be possible, reliable or useful (for example meaningful bespoke mortality experience analysis for smaller schemes). In general prudence is not uniquely quantifiable, nor is the relationship between covenant and other risks and prudence.

We suggest therefore that the wording for 2.5(a) and 2.5(c) is updated to remove “level of” to give practitioners more flexibility to give details which are more indicative. We consider there is no requirement for further details on communicating prudence for a TAS 100 compliant document.

Excessively prudent assumptions

An ‘appropriate’ level of prudence (P2.1) would, by definition, not be excessive, and as such we do not believe additional provision is necessary. P2.1 should ensure practitioners draw out issues of excessive prudence where relevant. We also recommend that the wording for P2.1 is updated to remove “level of” for the reasons set out above.

2. **Do you consider that the removal of part (a) of Provision P2.7 (P2.9 in the exposure draft) would result in information not being provided that would be important to the governing body’s understanding of the material risks in relation to funding and financing? If so, please explain your rationale.**

We do not consider the removal of this term would reduce understanding of material risks given the other information contained in the advice.

3. **What are your views on the proposed Provisions P2.3 and P2.12? Do you expect there to be any practical challenges to complying with the proposed Provision P2.12?**

The legislation does not require the low dependency funding basis to be prudent (or coincide with the definition of prudence in TAS 300) - so P2.3 should be rephrased to reflect the underlying legislative requirement that further employer contributions would not be expected to be required.

Users will likely be separately advised (i.e. not by the actuarial practitioner) on the resilience of the LDIA, and given TAS 300 covers the advice relating to the funding of the scheme, reference to the resilience of the LDIA should be removed in its entirety from both P2.3 and P2.12.

It is not clear how to interpret “the circumstances of the pension scheme” set out in P2.3.

Inclusion of the “the level of risk” within P2.12 could suggest an onerous requirement to quantify the level of risk of further employer contributions being expected to be required (eg through stochastic modelling). This wording should be removed as the requirements for stress testing around contributions not being expected to be required already exist in The Pension Regulators updated funding code.

Our proposed updated rephrasing of P2.3 is as follows “Practitioners advising on a low dependency funding basis must take into account relevant factors relating to the pension scheme.”.

4. What are your views on the proposed Provisions P2.2 and P2.10? Are there further factors which you believe practitioners should consider or communicate? If you disagree with the proposed requirements, please suggest alternative approaches.

The pre-existing “should” requirements already included in TAS 100 (in Section 3 Application 1 Risk identification) are sufficient in this case, and we do not believe these requirements need to be repeated within TAS 300 to update to “must” requirements. P2.2 or P2.10 could either be removed from TAS 300 or updated to reflect the same “should” requirements from TAS 100. Where material these factors will already be considered under the pre-existing TAS 100 requirements.

5. What are your views on the proposed Provision P2.11? If you disagree with the proposed provision or believe there is additional information relating to liquidity that should be communicated, please explain your rationale.

We consider P2.11 as drafted is potentially distracting and onerous. The background references are to LDI and liquidity, but this is an issue for asset management and not for TAS 300. In general, modelling done by the practitioner on liabilities would show changing assumptions have most impact on the medium/longer term projections which may not be seen as helpful by users or relevant to the current liquidity position. Short terms fluctuations in expected member cashflows which are most likely to cause liquidity issues are generally as a result of individual member movements such as transfers and cash commutation.

We suggest removing P2.11 from TAS 300, noting work of this nature would be covered by TAS 100.

6. Is there any technical actuarial work undertaken by practitioners in relation to managing a funding and investment strategy which is not adequately covered by the proposed provisions? If so, please explain what this is. If you provide advice in relation to an LGPS, do you anticipate any challenge in applying Provisions P2.2, P2.10 and P2.11 in relation to these arrangements?

No, we consider this is adequately covered.

In relation to a LGPS, we assume the intention is that for the funding and investment strategy, “any equivalent strategy” refers to the principles in a LGPS fund’s current Funding Strategy Statement and Investment Strategy Statement. Similarly, we assume the intention is that for a journey plan, “any equivalent plan” refers to a LGPS fund’s current funding plan set on an employer-by-employer basis, in line with the Funding Strategy Statement. If this is the case then we don’t anticipate any issues in applying provisions P2.2, P2.10 and P2.11 to a LGPS.

7. Do you agree with the proposal to remove P2.6 of TAS 300 v2.0 from the standard? If not, please explain your rationale, including the matters which you believe a governing body needs to have communicated to them by actuarial practitioners to support them in fulfilling their statutory duties in relation to funding and financing.

Yes we agree with the removal, as these matters are adequately covered by the relevant legislation, revised code and actuarial standards.

8. Do you envisage any challenges arising from the proposed introduction of Provision P2.4? If so, please explain what these are.

We do not support the inclusion of this provision as drafted, as we do not think advising on the different outcomes of hypothetical different third-party advice is helpful or useful to the user.

We think if this provision is included, it should instead be updated to require practitioners to understand the limitations of third-party advice and, if considered material, advise on how those limitations may influence the resulting actuarial work. We note that third party advice may be treated as “data” from an actuarial perspective, and that the data provisions under TAS100 would then apply and arguably already appropriately cover what is required from the actuary in this regard.

9. What are your views on the proposed Provision P2.13? Please explain your rationale.

Under the Funding and Investment Regulations, it is the trustees (rather than the practitioner) who decide if allowance for new entrants/accrual is included in the significant maturity calculation and as such this provision needs to be revised or deleted. As drafted, we believe this could imply that it is the practitioner who is required to justify the allowance made.

In practice, as with any other demographic assumption, the actuary will advise on the choice of new entrant/new accrual assumption(s) and illustrate sensitivities, to allow the trustees to form a view. We also note that TPR has included guidance on the assumptions about future accrual in the Funding Code of Practice. We therefore do not believe that assumptions relating to future accrual of benefits need to be called out explicitly in TAS 300, as they simply form part of the overall set of demographic assumptions advised on by the practitioner but ultimately decided by the trustees, and would recommend removal of P2.13.

10. Do you agree that the items listed in Appendix A are material for all schemes? If not, please explain which items may not be material in which circumstances. Do you agree the proposed amendments to items b, d and e in Appendix A? If not, please explain why.

Item b (F&IS) should be deleted as this is not available to members (with deliberate intent by DWP) under disclosure regulations but is available to The Pensions Regulator. Members will have access on request to the valuation report and the statement of funding principles, and to a summary funding statement, for information on scheme funding. We would be relatively comfortable if the previous wording from TAS 300 v2.0 that referred to the “funding objectives” is retained.

We consider items d and e are unhelpful and add additional and potentially irrelevant detail not least considering the communication requirements of TAS 100. It should be sufficient to focus only on the relationship between, and progression of technical provisions and low dependency, with only the current solvency funding level disclosures being required.

11. Do you agree that the risks associated with technical actuarial work in connection with buy-ins and capital-backed journey plans and other similar arrangements are adequately addressed by TAS 100 and the proposed provisions of TAS 300 as set out in the exposure draft? If not, what risks do you consider not to be adequately addressed and what different or additional provisions do you suggest be included in TAS 300?

We agree these risks are adequately covered by the risk identification, data, assumptions, models, and communication principles of TAS 100.

12. Are there any further areas of technical actuarial work in relation to funding and financing which you believe should be addressed in TAS 300? If so, please explain what these are and the risks involved.

No further areas.

- 13. Do you agree that practitioners should communicate any material increase in risk from providing future accrual of benefits or future accumulation of money purchase benefits without equivalent funding, as set out in Provision P2.9c? If not, please give reasons for your response.**

Provision 2.9(c) is unnecessary as a specific focus and should be deleted as this should already be picked up in (a) and (b). The actuary will also routinely consider this when certifying that the amounts provided for in the Schedule of Contributions will ensure technical provisions continue to be fully funded (or will be fully funded by the end of the Recovery Plan, for schemes in deficit).

However, it could be helpful to include in 2.9(a) a specific reference to future accrual and the value of the corresponding contributions in the projection of the funding level.

- 14. Do you agree with the application of the provisions in Section 4 to technical actuarial work as set out in “benefit alterations and other activities”, beyond incentive exercises and scheme modifications which are already in scope in the current standard? Does the proposed extension of scope in relation to provisions in Section 4 capture technical actuarial work which you consider should not fall in scope of TAS 300, or where the proposed Provisions in Section 4 are not applicable? If so, please explain what this is.**

While we agree that advice on the use of surplus is an issue that should be within the scope of TAS 300, it is not obvious that these items should sit within the same section and follow the same requirements that apply to incentive exercises and benefit modifications. The ‘other activities’ tag is particularly unhelpful as it is not obvious from the main body of the text that it includes use of surplus.

If the FRC would like to put standards in place around advice on use of surplus it may be better to do so in separate section, covering the final three bullets points within the glossary definition of “benefit alteration or other activities” (i.e. covering contributions and expenses), despite the addition of “where relevant” in P4.2. A suggested title for this section could be “alternative use of assets”. We believe the considerations for these two points are distinct from the first two (incentive exercises and scheme modifications) - notwithstanding that a particular activity could encompass both sections (e.g. an incentive exercise where expenses are met from the scheme).

Regarding the Glossary definition of “benefit alteration or other activity”, on expenses in particular, any advice the practitioner might be called upon to give is likely to be very different to the other matters. For example, it might be in the power of the employer as to how expenses are paid, and so the advice the practitioner would give would relate primarily to how expenses should instead be funded for, not the impact on different categories of member.

- 15. Do you anticipate challenges in judging which of elements a to c in Provision P4.2, as set out in the exposure draft, to apply in any given circumstances?**

As set out in our response to Q14, a number of these requirements would commonly not be applicable in use of surplus situations and therefore this would be better set out in a separate section.

16. What are your views on the proposal that the standard would be effective around one month after publication? Please set out any practical difficulties which you believe this might cause. Do you foresee challenges in connection with providing advice before the effective date of TAS 300 v2.1 on valuations with an effective date on or after 22 September 2024? Please set out any proposals for how these may be mitigated. Do you foresee challenges in relation to applying the proposed TAS 300 v2.1 to valuations with an effective date before 22 September 2024 which do not fall under the FIS regulations?

We do not believe a timescale of one month gives enough time to allow the efficient orderly completion of TAS 300 v2.0 valuations where for example much of the documentation has already been drafted and agreed and was awaiting signature pending for example an employer decision which was itself dependent on the timing of a future board meeting. We suggest a timescale of 6 months would be far more likely to allow the efficient orderly completion of valuations, and we do not believe would cause any detriment to upholding a high standard of actuarial work (although encouraging earlier voluntary adoption if feasible). A timescale of 3 months as a minimum would better reflect the commonly used quarterly meeting cycle.

Given the proposed implementation date of TAS 300 v2.1 in Q3 2025, we expect the challenges of providing advice now for new code valuations, whilst operating under TAS 300 v2.0, can be reasonably managed. However substantive additions to the final version compared to the exposure draft will make this more challenging. On publishing, the FRC should make very clear to practitioners that retrospective compliance for decisions already made as part of a valuation spanning the changeover to TAS 300 v2.1 is not required.

We see no benefit (but some disbenefits from disruption) for including pre 22 September 2024 valuations under TAS 300 v2.1 (particularly as parts of the proposed TAS 300 v2.1 will not be relevant). We therefore request that the FRC confirm that pre 22 September 2024 valuations should continue to be completed under TAS 300 v2.0. Where the FRC feels strongly that the new provisions relating to use of surplus should apply as soon as practicable for all schemes, then perhaps just Section 2 (relating to scheme funding and financing)/Appendix A should remain unchanged from TAS 300 v2.0 for the completion of pre 22 September 2024 valuations.

17. Do you agree with our impact assessment? Please give reasons for your response.

Advisory firms have real life experience relating to the impact of changing a TAS. There is a requirement to document compliance with every aspect of a TAS. There is a need for firms to analyse the impacts, to plan for changes, to revise compliance checklists, to revise internal procedures, to develop training, to train staff, to review transition experience, and to update budgets and fees to reflect the additional compliance work carried out. Many of these comprise of a certain proportion of fixed costs whether there are 5 new provisions or 50 new provisions. Much of the training will to some extent need to be repeated, as new funding code training and drafting of revised standard documents will already have been carried out. The additional compliance work can be significantly greater for smaller firms with fewer resources.

Therefore, we do not fully agree with the statement in 7.7 that the impact will not be significant for all. The impact can be mitigated to some extent by longer timeframes for implementation and reducing in-scope work (e.g. pre 22 September 2024 valuations).

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