ASSOCIATION OF
aca
CONSULTING ACTUARIES

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Catherine Mo
Levy Policy Manager
Pension Protection Fund
Knollys House
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Dear Catherine

The 2011/12 Pension Protection Levy Consultation

I am writing on behalf of the Association of Consulting Actuaries in response to your consultation on the 2011/12 Pension Protection Levy.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the code of professional conduct of the Actuarial Profession. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

General Comments

We are aware that the PPF is changing its approach to calculating PPF levies, and we have therefore taken the view that it is not appropriate to recommend significant changes to the 2011/2012 levy. We do however want to make a couple of points at this stage about the future levy:

1. We think that it is important that there is a closer relationship between the approach to calculating the levy for individual pension schemes and the approach to setting the total levy. The total should (more or less) equal the sum of the parts, without the need to apply an arbitrary scaling factor.

Without this, our clients find it hard to believe that their levy is a fair reflection of the risk that their pension scheme poses to the PPF.

2. In your consultation, you refer to employers "inappropriately [improving] their Failure Scores by manipulating elements of the scoring system" (paragraph 1.3.2). It is not entirely clear whether you are just concerned with companies that change their geographical location and industry sector (paragraph 3.2.4), or if there are other aspects that concern you. We do however have a concern with your statement while your risk measurement provider, Dun & Bradstreet (D&B), actively encourages companies to change elements of their score that are under company control. Indeed D&B sell a service that helps companies to identify such changes. We do not support companies that fraudulently provide inaccurate data to D&B, but it is inappropriate to criticize companies which take legitimate action to present themselves in the best light, particularly when companies have found in the past that they have to take such actions to stand still from year to year as the levy formula has increased the scaling factor.

We hope that you will take these comments into account in your levy redesign, and we will provide a full response to that consultation in due course. In the meantime, we confirm that we have no comments to make on the proposed 2011-2012 levy formula.

Block Transfers

You asked specific consultation questions about the need to for an actuary to certify that "the value of the assets is unlikely to be overstated" where a block transfer has taken place. You ask whether the requirement gives rise to a conflict with the actuaries' professional code.

The Actuaries' Code states that "Members will not act unless they have an appropriate level of relevant knowledge and skill". Also "Members will consider whether advice from other professions and other specialists is necessary to assure the relevance and quality of their work."

Actuaries generally understand the principles of valuation of pension assets. Given a list of assets, all quoted, and a reconciliation from the last audited financial statements, an actuary can carry out some basic checks to ensure that the assets do not look overstated.

However, there are some areas where the actuary does not have expertise. The first is that actuaries will not carry out the tests that auditors do to determine that pension scheme accounts are "fair and reasonable". They may well not spot fraud or problems with the title of assets. We assume that this audit process is not expected by the PPF, given that an audited asset statement is not required.

Secondly, the actuary is unlikely to be able to value holdings in non-quoted assets. Unless the calculation date is very close to a year end for which audited accounts are available, the actuary is likely to have to take advice on the valuation.

We understand that, in practice, it is reasonably common for actuaries to sign the certificate, but to cross-refer to an accompanying note that explains the tests that they have done, advice they have sought and any limitations on their work. If the PPF is happy to accept this approach, we see no difficulty with it continuing.

We hope that you find our comments of assistance. If you would like to discuss our response, please contact me (Charles.young@hymans.co.uk or 020 7082 6228).

Yours sincerely

Charles Young
Chairman
Pension Schemes Committee