ASSOCIATION OF
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Private & Confidential
The Director
Board for Actuarial Standards
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Dear Sirs

Response to Pensions Consultation Paper

Thank you very much for giving us the opportunity to comment on the Pensions Consultation Paper produced by the Board for Actuarial Standards (BAS) in relation to a proposed Pensions Technical Actuarial Standard (TAS).

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 Faculty and the Institute of Actuaries. 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 consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

Our detailed responses to your questions are set out in the Appendix to this letter. We would particularly like to draw your attention to the following points.

Actuarial Information

The TAS uses the phrase 'actuarial information' without definition, either in this consultation paper, in the Scope and Authority, or in the generic EXDs. It is particularly important for us to be able to understand what is intended in areas of non-reserved work covered by the Pensions TAS, as listed in paragraph 4.26. We assume that the intention is to refer to information which might be regarded as actuarial in nature, perhaps because of its inclusion in the training for the actuarial qualification.

Cost-Benefit Analysis

Before finalising the TAS, we strongly recommend that the BAS undertakes a cost-benefit analysis in relation to each of the main topics which are to be covered by the TAS. Subject to our comments below, we agreed that it is unlikely that there will be extra work in preparing a scheme funding report. In other areas covered by the TAS, which have not been subject to guidance in the past, we believe that there may be some substantial cost issues.

We would be delighted to work with the BAS to identify the likely extra costs. We think that it is important for the BAS to articulate how it will measure benefits, for example, what measurable outcomes will it want to see improved. We think it important that the results of such an analysis are published; in particular, this may help engage the interests of the users of actuarial information.

We appreciate that feedback from users is important data for the BAS. As well as conclusions that may be drawn about the nature of the technical advice provided to the user, we would welcome observations from BAS about the context within which the advice was given and the way that the governance and management of the receiving institution may have influenced the way the advice was delivered and interpreted.

Quantification of Prudence

The requirement to quantify the degree of prudence in prudent estimates for scheme funding reports will require a doubling of the number of calculations required for the ongoing scheme valuation. In view of the need to thoroughly check figures in scheme funding reports, this is not a trivial exercise.

We believe that the resulting piece of information, that a prudent liability calculation is, say, 110% of a best estimate, is potentially misleading:

- Different actuaries will take different views as to what is a best estimate;
- The figure will not give an adequate measure of risk on its own; for example a valuation liability calculated with a 5% margin for a scheme that invests in closely matching assets may be significantly less financially risky than another scheme with a 15% margin which invests heavily in equities.

Although we are therefore opposed to the proposed requirement in paragraph 8.14, we nevertheless believe that it is appropriate for the actuary to justify the choice of prudent funding assumptions by explaining the way in which the assumptions are prudent, and we suggest incorporating a requirement to do this in the TAS.

Scheme Funding Report for Members

A scheme funding report can never provide information that is suitable for all scheme members to use as a basis for decision making. Different scheme members will have different objectives and risk tolerances, which cannot be addressed by a valuation report prepared with no consultation of members. The report is designed to give advice on contributions payable to a pension scheme, and should not be used for a completely different purpose.

Materiality / Proportionality

We are aware that the requirement to comply with the TAS is subject to materiality considerations. The BAS definition of materiality is wide-ranging, referring to matters which "could influence the decisions to be taken by the users". Actuaries are, by nature, cautious, and will tend to read the statement as including issues which might affect the decisions, even if they are fairly unlikely to do so.

The BAS will not give guidance on this in specific circumstances, and so actuaries will not be able to obtain guidance on the dividing line between matters that are or are not material, until the issue has been aired in court or disciplinary proceedings. Until then, actuaries are likely to err on the cautious side, as there is less danger of being sued for including too much information than too little.

We think that it would be helpful for the BAS to make a minor amendment to the definition of materiality, to refer to matters which "could reasonably be anticipated to influence the decisions to be taken by the users".

We recognize that a similar request has been made in responses to previous consultations, and that this has been rejected. We continue to think it is an important change to make, if we are to avoid actuaries expecting that they will be judged after the event with the benefit of hindsight, and therefore over-compensating in their advice.

On a related topic, we believe that it would be helpful to extend the Scope & Authority provisions discussed in paragraph 2.10, to explain that departures from the TAS are permitted in circumstances where compliance would not be proportional.

If you have any queries or comments, please do not hesitate to contact me (charles.young@hymans.co.uk).

Yours sincerely

Charles Young
Chairman
ACA Pension Schemes Committee

Encl. Appendix