

Pensions TAS ExD

Considerations for ACA response

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TAS's - the story so far

- Completed standards
 - TAS R(eporting) effective from 1 April 2010
 - TAS D(ata) effective from 1 July 2010
 - TAS M(odelling) effective from 1 April 2011
- ExDs
 - Pensions TAS
 - Expected effective 1 April 2011
- Consultations
 - Transformations?
 - Actuarial information used for accounts and other financial documents
 - Gone
 - Insurance

Pensions TAS: Structure

- A. Purpose
- B. Interpretation
- C. Scope
- D. General principles
 - Assumptions
 - Information
 - Calculations of payments to members
 - Financial statements
- E. Pension schemes subject to Pt 3 of PA04
 - Scheme funding – assumptions
 - Scheme Funding Report
 - Transfer values
- F. Funded pension schemes not subject to Pt 3 of PA04

B. Interpretation

- Material
 - Matters are material if they could, individually or collectively, influence the decision to be taken by users of the related actuarial information. Assessing materiality is a matter of reasonable judgement which requires consideration of the users and the context in which the work is performed and reported.
- Users
 - Those people whose decisions a report is intended (at the time of writing) to assist. Those to whom the report is addressed, regulators and third parties for whose benefit a report is written are examples of possible users.
- Method and Measure
 - A measure is the approach used to define how an (uncertain) asset or liability is quantified. A method is the mechanism that is used to quantify an (uncertain) asset or liability amount.
- Neutral
 - A neutral measure ...is one that does not incorporate any adjustments to reflect matters such as the desired outcomes.

C: In Scope

- Reserved Work concerning pension schemes
- Funding advice to trustees or scheme sponsors
- Funding advice to trustees in connection with investment strategy
- Advice to trustees in relation to:
 - scheme amendments
 - bulk transfers
 - scheme wind-ups
 - actuarial factors
- Advice in respect of projections of DC benefits
- Advice in respect of accounting standards (FRS17, IAS19)
- Advice in respect of directors' disclosures

C: Out of Scope

- M&A work
- Employer work, other than in relation to scheme funding matters on which employer agreement is required, or where the employer must be consulted
- Investment advice, other than actuarial work concerning contribution requirements or funding levels
- DC work, other than projections of benefits
- Transfer inducements

D Principles: Assumptions

- No guidance or limits on assumptions
- Should take account of purpose of calculations
- Derived from **sufficient relevant information**, including where appropriate recent scheme experience and (possibly) material events after effective date of calculations
- **Statement about appropriateness for purpose**
- Don't adjust one assumption for shortcoming in another unrelated assumption
- **Explain any differences in rationale between similar exercises**
- Explain derivation of discount rates, implications and **cash flows**
- **Compare discount rate to expected return on assets, allowing for current and anticipated future changes in investment strategy**
- Split mortality between current and projected future changes
- Extent to which allowance made for past and future discretionary practices

D Principles: Information

- Should seek information regarding matters which the scheme sponsor (or related parties) can affect e.g. salary growth, turnover etc
- Data to be sought should include practice and policy on discretionary benefits
- **If there is overriding legal uncertainty regarding benefits:**
 - **Seek known and relevant legal opinions in possession of client**
 - **Explain uncertainty in reports**

D Principles: payments to members and financial statements

- Instructions for 'third parties' should be sufficiently clear to enable the calculations to be carried out correctly
- Trustees (or governing bodies) should understand the financial implications of actuarial factors, so might need to describe:
 - Impact of different factors on scheme funding, members and sponsor
 - Sensitivity to changes in market conditions
 - Circumstances when factors should be reviewed
- For accounting work:
 - Seek information on materiality
 - If approximate methods used, state circumstances which could lead to material inaccuracy

E Scheme funding: assumptions (1)

For information provided in relation to technical provisions or statement of funding principles:

- Describe and explain different funding methods and measures, such as treatment of new members **and impact on future contributions**
- Provide sufficient information to enable trustees (or governing body) to fulfil their duties. **Must** include:
 - Range of options for each material assumption
 - Relevant financial and economic information
 - Sensitivity of calculations to each material assumption
 - Effect of changes in financial conditions on technical provisions **and solvency liabilities**
 - Relevant information about trends in mortality
- **Include comparison of technical provisions assumptions with solvency basis**

E Scheme funding: assumptions (2)

For information provided in relation to preparing or revising a schedule of contributions or recovery plan (sic):

- **Include a 'neutral' estimate of liabilities alongside a prudent estimate**
- **Explain the relationship between the prudent and neutral estimates**
- **Explain the change in the relationship between the prudent and neutral estimates since the previous exercise (if any)**

E Scheme Funding Report

- Report written so that an informed reader can understand scheme's financial position, its development since previous assessment and how it might change in the future
- Should include:
 - Information required by legislation
 - Trustees' funding objectives
 - Impact of wind-up on members' benefits
 - Explanation of difference between technical provisions and solvency liabilities
 - **Estimate of assets, technical provisions and solvency position in no later than 3 years' time**
- Long list of items that need to be included, such as: summary of benefit provisions, trustees' stated investment strategy, quantification of material change in funding level since previous assessment, **projected cash flows for each category of member, actions taken to mitigate key risks to the scheme**

E Transfer Values

- **Include a comparison of the assumptions with those used for a scheme funding assessment**
- Might need to be supplemented by a comparison of transfer values on both sets of assumptions for sample members.

Transition

- Effective 1 April 2011
- These GNs will go:
 - GN9, GN16, GN19, GN49
- These are under consideration:
 - GN26 (might be helpful to keep)
 - GN28 (supplements legislation)
- Not sure:
 - GN34, GN36
 - “not mandatory”

BAS's Impact Assessment

- Estimated cost of transition not more than 5% to 10% of annual cost of actuarial work for trustees
- Cost of transition for employer work 'not material'
- No significant ongoing costs in relation to scheme funding assessments
- Few additional costs for other 'large' exercises
- Additional costs for other 'smaller' exercises justified by the higher quality information
- Most of the transitional costs will be borne by practitioners!

Pensions TAS: Over to you!



Possible areas for comment:

- Is it clear what a neutral assumption is?
- Will it be helpful for trustees to compare prudent liabilities against a 'neutral' measure? How else might prudence be quantified?
- Should BAS determine that the scheme funding report should include detailed information not required by legislation, given that all information for trustees' decisions will already have been given? For whose benefit is the scheme funding report provided?
- Are the principles all consistent with BAS's Reliability Objective?
- Do you agree that the draft Pensions TAS is a 'principles based' standard?
- Do you agree with BAS's view on the costs of implementation?
- Is the commencement date of 1 April 2011 realistic?

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ACA Manchester, 17 May 2010