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Consulting. Outsourcing. Investments.

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Not Peer Reviewed

18 March 2010

Pensions TAS ExD
Considerations for ACA response

Deborah Cooper, London

BAS and the order of the consultations

Pensions TAS

The story so far

- Completed standards
  - TAS R(eporting) effective from 1 April
  - TAS D(ata) effective from 1 July
- ExDs
  - TAS M(odelling)
    - Expected effective 1 January 2011
  - TAS P(ensions)
    - Expected effective 1 April 2011
- Consultations
  - Transformations
  - Actuarial Information used for accounts and other financial documents
  - Insurance

BAS and the half completed standard

Pensions TAS

The pensions story so far

- Consultation on pensions TAS closed 18 September
- ACA main points:
  - Define actuarial information x
  - Carry out cost benefit analysis ✓
  - Requirement to quantify prudence could be misleading x
  - Scheme members should not be considered 'users' for purposes of TAS ✓
  - Refine definition of 'material' to make clear does not refer to judgements made with hindsight ✓
- BAS published response and ExD in February
  - Consultation closes on 21 May

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

F. Funded pension schemes not subject to Pt 3 of PA04

Pensions TAS
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.

Pensions TAS
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

Pensions TAS
Data

- Builds on Generic TAS D
- Benefit structure is data
- Should include information regarding matters which the scheme sponsor can affect e.g. salary growth, early retirements
- Should include practice / policy on discretionary benefits
- **Overriding legal uncertainty (e.g. GMP equalisation):**
  - **Include known and relevant legal opinions in possession of client**
  - **Explain uncertainty**

Pensions TAS
Assumptions

- No guidance or limits on assumptions
- Should take account of purpose of calculations
- Evidence based, including where relevant recent scheme experience and reflect material events after effective date
- Comment on appropriateness
- **Explain any differences between similar exercises**
- **Don’t adjust one assumption for inadequacy in another unrelated assumption**
- Explain derivation of discount rates, implications and cash-flows
- Compare discount rate to expected return on assets, allowing for future anticipated changes in strategy
- Split mortality between current and projected changes
- Extent to which allowance made for past and future discretionary practices

Pensions TAS
Modelling

- Builds on Generic TAS M
- Must explain funding method, for example treatment of future entrants and increases to benefits
- Instructions for ‘third parties’ should include:
  – Details of circumstances when assumptions apply
  – Sufficient information for calculations to be performed correctly
  – Procedures for checking
  – Guidance on when instructions / factors should be reviewed
- For accounting work:
  – Seek information on materiality
  – If approximate methods used, state circumstances which could lead to material inaccuracy

Pensions TAS

Reporting on scheme funding

- Builds on Generic TAS R
- Enable trustees to fulfil statutory duties in relation to setting assumptions and funding strategy
- Compare assumptions for technical provisions and solvency
- **State approximate “neutral” value of liabilities, explain difference to prudent estimate and explain changes in comparison since previous exercise**
- Valuation report written so that an informed reader can understand scheme’s financial position, its past development and how it might change in the future
- **Valuation report 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 3 years and projected cash flows**

Pensions TAS
Some general observations

- Residual uncertainty about the content, because waiting for outcomes of other consultations
- Actuaries code
  – "The Actuaries' Code consists of principles which members are expected to observe in the public interest and in order to build and promote confidence in the work of actuaries and in the actuarial profession. However, these principles do not extend to the technical aspects of actuaries work which are addressed in the BAS's technical standards."

Pensions TAS
Over to you

- Possible questions
  - Can you tell me what a neutral assumption is?
  - Is it useful for trustees to compare technical provisions against a ‘neutral’ measure, given that they already have PPF, IAS19 and solvency to play with?
  - Should BAS determine that the scheme funding report could just be a collection of the relevant aggregate reports?
  - How do you feel now that every calculation you do that is not subject to a BAS standard is unregulated? Unless all your calculations are of high quality, in which case they are all subject to BAS’s standards.

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