

Institute and Faculty of Actuaries

Steer report

Subject	Regulation Board 'Deep Dive' into the role of actuaries in DB to DC transfers
Regulation Board Meeting	28 February 2020
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A: Executive Summary

1. In 2019 Regulation Board (the Board) decided to look at the ways in which it incorporates regulatory risk analysis into its work in terms of identifying and prioritising risks to the public interest which arise in connection with actuarial work.
2. To help inform the activities of the Board it was decided there would be merit in introducing:
 - i) a specific public interest focused horizon scanning register to support the identification of new and emerging regulatory risks; and
 - ii) 'Deep dives' on specific risk topics to take place at each Board meeting, with experts attending from time to time to facilitate discussions and provide background information and key issues for the Board to consider.
3. The Board has agreed that the first of these risk deep dives should look defined benefit (DB) to defined contribution (DC) pension transfers, focusing on the different roles carried out by actuaries and whether they might be doing anything that could create potential risk in this area for consumers.
4. This paper sets out some background information on this topic as well as some key issues for the Board to consider.
5. Helen Nicholas, a member of the Current Pensions Review Working Party which reports to the Pensions Board (the Working Party), has been invited to the meeting to provide background into the research undertaken by the Working Party and help facilitate the Board's discussion.

B: Background

6. DB to DC transfers remain high profile following the introduction of pensions freedoms in 2015, with both the number of transfers and the monetary amount of transfers significantly higher than pre-2015 levels.
7. Actuaries may be involved in DB to DC transfers in several capacities, including:
 - Advising trustees of DB pension schemes;

- Advising sponsors of DB pension schemes;
- Advising trustees / managers of DC pension schemes; and
- Advising individuals / working for financial advice firms.

8. * **redaction due to confidentiality***

Working Party research

9. The Working Party has been looking at the question “*Are transfer values at the right level?*”
10. Its work has focused on what transfer values should represent and how they should be calculated. It has engaged with both actuaries and regulators in the course of its research.
11. The Working Party has found little appetite for a wholesale change in approach to transfer values, although it has identified two specific areas where further consideration from the IFoA may be appropriate:
- i. Allowance for commutation within transfer values; and
 - ii. Allowance for investment de-risking within transfer value discount rates
12. Other potential areas of risk identified during the Working Party’s research have included:
- Potential for members to make sub-optimal decisions when transferring
 - Lack of member understanding / awareness around investment and longevity risks
 - Communication of transfer values to members
 - Potential for selection risk to negatively impact remaining members
 - Appropriateness of valuations for divorce purposes
 - Lack of comparability between schemes
 - Lack of consistency with how insurers would value benefits

13. * **redaction due to confidentiality***

Current applicable standards

14. The following are the current applicable IFoA and FRC standards that are relevant to members carrying out work in this area:
- i) The Actuaries’ Code
 - ii) APS P1: Duties and Responsibilities of Members Undertaking Work in relation to Pension Schemes (currently under review)
 - iii) APS X2: Review of Actuarial Work

- iv) GN30 Compensation for Professional Shortcomings (intended to be withdrawn and replaced by a new APS X5 following public consultation)
- v) TAS 100: Principles or Technical Actuarial Work
- vi) TAS 300: Pensions

C: Discussion

15. The Board is asked to discuss where risks might arise in relation to actuarial work on DB to DC transfers, as relevant to actuaries and their work.
16. In identifying what some of the key risks might be, the Board is asked to consider:
- What are the potential outcomes for a consumer taking a DB to DC transfer? What are the potential outcomes for a DB pension scheme offering transfers out? What are the potential outcomes for a sponsor of a DB pension scheme?
 - What public interest responsibilities do actuaries have in relation to DB to DC transfers?
 - What are the different stakeholder needs in relation to DB to DC transfers? How may they conflict? How should they be balanced?
 - What should actuaries be doing to ensure that they meet their professional obligations and can demonstrate that they have done so? What should actuaries be doing to meet the requirements of TAS 100 and TAS 300? What should they be doing in addition to those explicit requirements?
 - What role should the IFoA take in public discussion / education around the risks and benefits of DB to DC transfers? What responsibilities do actuaries have regarding other parties' direct communications with members?

D: Decision

17. The Board is asked to consider whether any of the issues raised during the course of its discussion demonstrate the need for further regulatory intervention to address any perceived risks, over and above those measures already in place.
18. In particular:
- i) Are there any specific requirements that ought to be imposed by way of an APS (or TAS if relating to a technical issue)? If so, what might these be?
 - ii) Would non-mandatory guidance be appropriate and helpful for members in relation to any technical or ethical issues relating to these types of transfers (recognising that any technical guidance would require the consent of the FRC)?
 - iii) Are there any specific issues identified that the Board considers should be communicated to Members by way of a Risk Alert?
 - iv) Is there other educational or CPD material that could be developed to provide support to Members working in this area?