Institute and Faculty of Actuaries

March 2025

Response to FRC consultation on Technical Actuarial Standard 300: Pensions

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 34,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

The IFoA welcomes the opportunity to respond to the Financial Reporting Council (FRC) consultation on Technical Actuarial Standard (TAS) 300: Pensions, published on 9 December 2024.

The revised funding regime for UK defined benefit schemes has taken many years to implement. With the legislation, regulation and codes of practice in place, now is the appropriate time to review the funding aspects of TAS 300 to ensure that our members, in particular scheme actuaries and corporate advisers, know what is expected in their respective roles. We have set out detailed comments on several of the consultation questions below.

In particular:

- We note some areas where TAS 300 does not appear to fully reflect the legislative requirements, including who has responsibility for determining certain aspects of funding, such as the allowance for future accrual in the significant maturity calculation and the legislative requirements for the Low Dependency Target (which is not specifically required to be “prudent”). To ensure actuaries are able to comply with both the legislation and the TAS requirements, it would be helpful if these are wholly consistent.
- We are concerned that wording around “level of prudence” could be read to mean that quantification is always necessary, and to imply that some elements (such as the prudence required to reflect a specific covenant) can be uniquely determined. We fully agree that actuaries should be providing sufficient information for users to understand the prudence in the assumptions, but we think the requirements could be more helpfully worded to permit a range of approaches so that this can be done as the actuary sees fit in the circumstances of each scheme.
- We suggest clarity is needed for actuaries working as investment consultants, for example when advising on the Low Dependency Investment Allocation. Is it intended that these actuaries should be in scope, recognising that other non-actuaries will also be advising on this and not subject to TAS300 requirements?
- We are concerned that the proposals for rapid implementation will cause difficulties for both actuaries and users – especially those where the majority of decisions on the valuation have already been made and where compliance could add unnecessary time and confusion to the process. In our view, valuations with an effective date prior to 22 September 2024 should be excluded, with at least a 3 month period following publication before mandatory compliance is required for post 21 September 2024 valuation dates. Early adoption can, of course, be encouraged.

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As this consultation is of a regulatory nature, it has been approved on behalf of the IFoA by the Regulatory Board with input from Pensions Board members.

Our detailed responses to consultation questions are shown below. If you have any questions on the response, please contact David Gordon (reviews@actuaries.org.uk) in the first instance.

Yours faithfully

Neil Buckley
Lay Chair, IFoA Regulatory Board

Appendix - Response to consultation questions

Question 1

What are your views on the proposed changes to provisions in relation to the level of prudence in assumptions? Should TAS 300 include further requirements in relation to setting or communicating the level of prudence in assumptions?

Should TAS 300 include additional provisions relating to the risk of excessively prudent assumptions being used in actuarial valuations? Please give reasons for your response.

The proposed provisions 2.5(b) and (c) suggest that the actuary can quantify precisely where prudence is contained in assumptions and that there is a unique, objective quantifiable relationship between covenant and other risks and prudence. We suggest more flexible wording that requires the actuary to build on the description of the level of the prudence in 2.5(a) (which is unchanged from the existing TAS300) and then to indicate where it is reflected in the assumptions and its relationship to covenant and other material risks.

It is not necessary to include provisions regarding 'excessively prudent assumptions.' If they were included, then a balancing provision on insufficiently prudent assumptions might also be considered appropriate for corporate advisers. However, both of these are covered by the proposed provision P2.1.

Question 2

Do you consider that the removal of part (a) of Provision P2.7 (P2.9 in the exposure draft) would result in information not being provided that would be important to the governing body's understanding of the material risks in relation to funding and financing? If so, please explain your rationale.

We are comfortable with the removal of the requirement to provide "an indication or description of future cash flows including their timing" under the previous TAS 300, given the wider requirements of the new funding regime.

Question 3

What are your views on the proposed Provisions P2.3 and P2.12? Do you expect there to be any practical challenges to complying with the proposed Provision P2.12?

First, we note that the Funding and Investment Strategy (FIS) regulations[i] do not specifically require the low dependency funding basis to be "prudent", although the Code of Practice[ii] states that "Trustees should ensure that the assumptions are chosen prudently" [p23, para 4] and makes several further references to prudence in the low dependency funding basis. In light of the provisions in the Code, we are content that proposed provision P2.3 is reasonable given it only applies when practitioners are advising on prudence.

In relation to proposed Provision P2.12, it will often be investment advisers advising on some or all aspects of the resilience of the low dependency investment allocation. They may not be required to follow TAS 300, if they are not IFoA members. They may also be employed by a different organisation to the scheme actuary. The proposed Provision should be amended to allow for practitioners from different organisations to provide this communication, or for the practitioner to be clear to the governing body about where the governing body needs specialist advice. It may also be helpful to remind practitioners to avoid straying beyond their area of expertise. It may be appropriate to link to proposed Provision 2.4 (see Q8 below).

Additionally, we have concerns that proposed Provision 2.12 may require significant work, including stochastic modelling, and costs to the user, which may be disproportionate. We therefore suggest that the wording is reviewed to make it more flexible and clear that indicative approaches can be adopted, rather than it being necessary to quantify probabilities precisely.

In particular, in the wording of proposed Provision P2.12, 'The level of risk' is an unclear term – 'the risk' might be sufficient. Where a scheme is a long way from its relevant date, detailed information on the risks of the employer having to make further contributions after the relevant date might be deemed disproportionate, so 'must' could be too strong. Proposed Provision P2.12 should also be specific that the expectation of further contributions being required is in the context of the scheme being fully funded on the low dependency funding basis and invested in line with the low dependency investment allocation (which it may not be).

In our view, it is disproportionate for proposed Provision P2.12 to apply to advice being provided to pension scheme sponsors, particularly where the sponsor has access to similar advice provided to the trustees.

Question 4

What are your views on the proposed Provisions P2.2 and P2.10? Are there further factors which you believe practitioners should consider or communicate? If you disagree with the proposed requirements, please suggest alternative approaches.

In these two provisions, it may be more appropriate to refer to "funding and investment strategy" to link explicitly with the new funding regime, and to make that a defined term. This would be consistent with the treatment of other terms introduced by the FIS regulations within the updated TAS 300.

However, we consider that proposed Provision P2.2 does not add to the existing requirements of Principle 1 of TAS 100. We have no further issue with the proposed provision P2.10.

Question 5

What are your views on the proposed Provision P2.11? If you disagree with the proposed provision, or believe there is additional information relating to liquidity that should be communicated, please explain your rationale.

We understand that proposed Provision 2.11 is intended to ensure the governing body's attention is drawn to liquidity risk relating to unexpected liability cash flow requirements to assist with the compliance of paragraph 5 of Schedule 1 of the FIS regulations. If this proposed provision is to be included, there should be a clearer link to the regulations or greater clarity on the specific type of cashflow.

But we question whether this is needed at all for actuarial advice on funding. Advice on liquidity is more usually an investment matter, and a number of the assumptions which are material in this regard (such as rates of early and late retirement and voluntary transfer) are unlikely to be material from a funding perspective where they are set on broadly cost neutral terms.

Question 6

Is there any technical actuarial work undertaken by practitioners in relation to managing a funding and investment strategy which is not adequately covered by the proposed provisions? If so, please explain what this is.

If you provide advice in relation to an LPGS, do you anticipate any challenge in applying Provisions P2.2, P2.10 and P2.11 in relation to these arrangements?

We are not currently aware of any such work.

We have no comment on the LGPS aspects of this question.

Question 7

Do you agree with the proposal to remove P2.6 of TAS 300 v2.0 from the standard? If not, please explain your rationale, including the matters which you believe a governing body needs to have

communicated to them by actuarial practitioners to support them in fulfilling their statutory duties in relation to funding and financing.

We agree it is appropriate to remove this provision.

Question 8

Do you envisage any challenges arising from the proposed introduction of Provision P2.4? If so, please explain what these are.

We do not entirely see what proposed Provision P2.4 is trying to achieve as currently worded. It is not clear, for example, that it is either helpful or necessary for the actuary to consider what their advice would have been if the covenant advice had been very different to what was actually provided. In addition, in practice, respective advisers will often make agreements not to rely on each other's advice. It may therefore be appropriate to re-frame the proposed Provision P2.4 in terms of the actuary needing to understand the limitations of third party input when basing advice on it, and to take this into account in providing their advice and ensure the user is aware of it.

Question 9

What are your views on the proposed Provision P2.13? Please explain your rationale.

The determination of the assumption for new members for open schemes is a matter for the trustees and is well covered by the Code of Practice. This allowance can be considered one of the many demographic assumptions on which the actuary is required to advise. Given the general provisions relating to assumptions in TAS 100, there is no requirement for a new provision within TAS 300. Alternatively, if it is to be retained, it would be appropriate to amend the proposed Provision P2.13 to read "… must explain the impact of the allowance …" and to delete "… and the reason for making such allowance." at the end, to reflect more closely the role of the actuary.

Question 10

Do you agree that the items listed in Appendix A are material for all schemes? If not, please explain which items may not be material in which circumstances.

Do you agree the proposed amendments to items b, d and e in Appendix A? If not, please explain why.

The funding and investment strategy is not disclosable to pension scheme members as a right. Therefore, it is not appropriate to require a description in the (disclosable) scheme funding report. The proposed item b should therefore be deleted, or the existing b (referring to the "funding objectives and investment strategy") could be retained.

The increased explanation and description to be disclosed under d and e will require additional work that risks confusing users and to be useful may need to be provided earlier in the valuation process. They should therefore not be included in the appendix. If retained, we suggest the "(where relevant)" may be clearer after "and" at the start of the proposed insertion to e.

Question 11

Do you agree that the risks associated with technical actuarial work in connection with buy-ins and capital-backed journey plans and other similar arrangements are adequately addressed by TAS 100 and the proposed provisions of TAS 300 as set out in the exposure draft? If not, what risks do you consider not to be adequately addressed and what different or additional provisions do you suggest be included in TAS 300?

We agree these risks are adequately addressed by TAS 100.

Question 12

Are there any further areas of technical actuarial work in relation to funding and financing which you believe should be addressed in TAS 300? If so, please explain what these are and the risks involved.

We do not consider that there are other areas of work that need to be addressed in TAS 300.

Question 13

Do you agree that practitioners should communicate any material increase in risk from providing future accrual of benefits or future accumulation of money purchase benefits without equivalent funding, as set out in Provision P2.9c? If not, please give reasons for your response.

The impact of unfunded future accrual on funding will be taken into account in what is already required under P2.9 (a) and (b). The proposed Provision P2.9(c) unnecessarily highlights unfunded future accrual in preference to other matters which may be more material for example the provision of discretionary increases, or the payment of expenses from scheme assets.

Additionally, the scheme actuary already has to consider these matters (in relation to the technical provisions) in order to provide the certification of the adequacy of the schedule of contributions.

We are therefore of the view that Provision P2.9(c) is unnecessary.

Question 14

Do you agree with the application of the provisions in Section 4 to technical actuarial work as set out in "benefit alterations and other activities", beyond incentive exercises and scheme modifications which are already in scope in the current standard?

Does the proposed extension of scope in relation to provisions in Section 4 capture technical actuarial work which you consider should not fall in scope of TAS 300, or where the proposed Provisions in Section 4 are not applicable? If so, please explain what this is.

The extension of the scope to cover the payment of expenses should only apply where the pension scheme rules are being amended.

The consultation document, at 4.11 states that there is no proposal to change the treatment of work on scheme modifications. The proposed amended definition, however, appears to extend to modifications which do not affect members' accrued benefits but might affect the security of their accrued benefits. This will increase the scope of the standard in a way that is ill-defined. For example, it may include a change to the future accrual of benefits or the introduction of new class of member. Neither of these changes affect accrued benefits, but could have an impact on overall benefit security, and are not within the scope of TAS 300 v 2.0. This contrasts with the existing scope where the definition is clear. The definition should be amended to reflect the FRC's intention here. It may also be helpful to define 'administration expenses' to clarify these are expenses involved with the running of the scheme, and not just the administrator's fees.

Question 15

Do you anticipate challenges in judging which of elements a to c in Provision P4.2, as set out in the exposure draft, to apply in any given circumstances?

We do not anticipate challenges here.

Question 16

What are your views on the proposal that the standard would be effective around one month after publication? Please set out any practical difficulties which you believe this might cause.

Do you foresee challenges in connection with providing advice before the effective date of TAS 300 v2.1 on valuations with an effective date on or after 22 September 2024? Please set out any proposals for how these may be mitigated.

Do you foresee challenges in relation to applying the proposed TAS 300 v2.1 to valuations with an effective date before 22 September 2024 which do not fall under the FIS regulations?

Many practitioners will be in a position to comply voluntarily shortly after the updated TAS 300 is published. However, others will need a longer lead-in period for compliance with this mandatory standard, without significant disruption, given the additional work needed and communications required, and that some valuations may have progressed to the point where most key decisions have already been taken by users. We suggest a minimum of three months, which is consistent with previous FRC actuarial standards.

For valuations with an effective date prior to 22 September 2024, these should continue to be carried out under TAS 300 v2.0. The FRC is setting out proposed amendments to TAS 300 that are appropriate under the new funding regime. Therefore, it is not appropriate to require the remaining pre 2024 valuations to be completed under the updated standard. Although this will mean the v2.0 will continue to apply in some situations, this will be for a defined and limited number of cases. Otherwise, actuaries will need to run an additional detailed compliance check on their advice for these valuations to ensure all requirements of v2.1 are met, despite them not applying to valuations with the same effective date that have been completed more quickly.

Question 17

Do you agree with our impact assessment? Please give reasons for your response.

As is the case with other regulatory changes, the impact might be viewed as largely 'one-off', as the processes, template documents and checklists used by individual firms are updated to reflect the new requirements and individual practitioners familiarise themselves with them. However, the impact could still be material across the pensions industry and is in addition to the significant costs already incurred from the introduction of the new scheme funding regime.

If the requirement to implement the updated standard within a month is retained, this would cause significant disruption and costs, and could potentially delay advice for projects that are already well underway including the completion of pre 2024 valuations.

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[i] The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (FIS Regulations): https://www.legislation.gov.uk/uksi/2024/462/contents/made

[ii] The Pensions Regulator's Funding Code of Practice (November 2024): https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice/funding-and-investment/funding-defined-benefits