Institute and Faculty of Actuaries

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IFoA comments/response on TAS 300/310

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide and oversee their education at all stages of qualification and development throughout their careers.

Overview:

The IFoA is pleased to respond to this consultation.

We set out below our comments on TAS 300, in which you will see we are largely supportive of the proposals, although there are some areas where we feel the FRC is proposing to go beyond the recommendations of the IFoA's Thematic Review, where we would challenge if these extensions are necessary.

We also include our responses regarding TAS 310, which have been prepared with significant input from the IFoA Pensions Board's CDC Working Party.

The Working Party notes that the draft TAS 310 sets a relatively high bar for actuarial standards in advising CDC schemes, which we believe is appropriate in principle, as this actuarial work will potentially affect benefit levels for large numbers of people by influencing trustee decisions. There are however several areas in which the proposals go further than we believe is necessary, potentially leading to a disproportionate increase in the amount of work required. That might then lead to increased costs passed on to schemes and their members, without necessarily improving member outcomes or the adherence to the Reliability Objective.

Although there is no specific question on the introductory paragraphs, we note that paragraphs 1.1 and 1.2 indicate that the standard would not just apply to the scheme actuary and would bring into scope actuaries advising companies on CDC related issues. We agree that this is appropriate.

In summary the points on which we feel most strongly are as follows:

- Q14/15 - we are of the strong view it is unfeasible for a scheme actuary to take into account "all relevant matters" when certifying that a scheme design is sound, and it would be helpful if TAS wording could provide more flexibility in this context
- Q11 – our view is that TAS 310 should not introduce a definition of "central estimate" which is different to that in legislation.

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- Q12/17 – the requirements to consider 'credible alternatives' for modelling and assumptions appear very wide-ranging and could lead, in our view, to both disproportionate additional work and potentially unintended consequences
- Q14 – given that CDC valuations will be undertaken annually, the proposed treatment of Post Valuation Experience (PVE) feels disproportionate. We might only expect this to be applied in circumstances where the PVE is materially different to expectations
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The IFoA and its CDC Working Party would be happy to work with the FRC on any revisions to TAS 310.

Approach and scope

1. What are you views on the proposed changes to the scope of TAS 300? Are there any other areas of pensions work that you consider to be inadequately covered by TAS 300 and should be included?

The proposed scope appears to be much wider in relation to scheme funding and financing and is no longer limited to legislative requirements. The consultation paper suggests it was not the intention to widen the scope in this way, so some further clarification or tightening of the scope is needed.

However, we do generally agree that TAS 300 should apply equally to technical actuarial work carried out by practitioners advising corporates where equivalent work would be in scope if carried out by a practitioner advising the trustees.

Scheme Funding and Financing

2. Do you agree our intention to defer any changes to requirements under scheme funding and financing until there is greater legislative certainty? Do you have any other specific concerns in relation to provisions on scheme funding and financing that you believe require addressing over a shorter period?

We agree with the proposal to defer further changes while there is uncertainty about the introduction of the new funding regime. We would also suggest these are deferred until ARGA is established,

We note that P2.1 and P2.2 are superfluous and could be removed, as they are now covered by TAS 100 A7.1d) and our understanding is that TAS 300 should only cover matters not already covered by TAS 100. It is also unhelpful for practitioners to need to comply simultaneously with two very similar but not identical requirements.

Factors for Individual calculations

3. What are your views on the proposed changes to TAS 300 in relation to the frequency of review of the actuarial factors? What are your views on the proposed changes to TAS 300 in relation to the timing of review of actuarial factors?

We note that the timing of actuarial factor reviews is generally a decision for the trustees, not for the actuary, In some cases (for example, where factors are set unilaterally by the sponsor and not market related) there may be little value in doing a review that is unlikely to result in any changes to factors. On balance though we agree that actuaries should provide advice to clients on the timing of reviews, noting that this could differ between factors depending on whether they are market related or not, and the balance of powers in the scheme rules for determining relevant factors.

We are broadly supportive of the proposal to require justification where the recommended period between reviews is more than 3 years, and with the acknowledgement that triennial reviews are not always necessary as a minimum.

We have some concerns about paragraph P2.9:

The term 'Scheme Funding assessment' is not defined and it is not clear whether it is intended to refer to a statutory Pensions Act 2004 Part 3 actuarial valuation, or alternatively any 'funding assessment' for the scheme – i.e. any comparison of assets and labilities or determination of contribution requirements.

While P3.2 clearly stems from the recommendations from the IFoA Thematic review, it extends the recommendations fairly significantly. The Thematic review recommended the maximum period between commutation rate reviews should be seen as 3 years, except where market-related factors are used; and it recommended that actuaries should consider providing advice on commutation factors during the valuation process. The proposed TAS 300 goes significantly further in applying the maximum period and the timing to all factor reviews and in stating that the actuary should seek to arrange for a review to be undertaken during the Scheme funding assessment so that decisions can be made together. For many of the reasons acknowledged on page 9 of the consultation paper, we believe it would be appropriate to soften the wording to more closely reflect the recommendations of the Thematic review.

For example, it is important to recognise that it is, ultimately, the trustees and sponsor not the Scheme Actuary who decide whether the factors should be reviewed at the time of the valuation. It is also important to acknowledge that there could be downsides to the simultaneous approach (e.g. inadvertently giving the sponsor power to veto factors which are set by the trustees, because the factor review has become part of a funding negotiation). We therefore suggest the wording of P3.2 is softened and amended as follows:

"Practitioners advising a governing body or other decision-making entity should consider the appropriate time to review actuarial factors in relation to the valuation cycle. Practitioners should, subject to the rules of the pension scheme, raise the possibility and advise on the relative merits of conducting the factor review at the time when a Scheme funding assessment is being undertaken.

P2.9 appears to require the practitioner to speculate about the outcome of any possible future factor review and its potential impact on scheme funding. However, the comments in the consultation document suggest the FRC's concern is that a Scheme Funding assessment agreed in isolation could then constrain the outcome of a future factor review. We therefore suggest replacing P2.9 with:

"If decisions on actuarial factors are not being made concurrently with decisions on funding and financing following a Scheme Funding assessment, practitioners must state in their advice on the Scheme Funding assessment whether and how actuarial factors and any future changes in actuarial factors have been allowed for, and describe any potential constraints and implications for a factor review conducted after the Scheme Funding assessment is completed."

CETV and commutation factors

4. Do you consider the proposed changes to Section 3 would enable decision-makers to reach a fully informed view in setting actuarial factors?

In our view, despite the stated intention in the consultation document that it is not the FRC's role to decide on the appropriate approaches and methodologies for setting factors where these are not already specified in law, the standard is drafted on the assumption that a cost to the scheme, market related approach is always the relevant starting point, regardless of the factor under consideration, the relevant provisions in scheme rules, the balance of powers for setting the factors and any other scheme specific considerations. It also fails to recognise sufficiently that the actuary is often an adviser rather than decision maker in the process.

We do agree that the starting point for any actuarial advice is a value comparison, but for factors other than CETVS (where there are explicit legislative provisions) it is not clear to us that the only "value" consideration is "cost to the scheme" as measured on the various possible scheme funding bases. For example, for commutation factors, consideration of what represents "fair value" to a member taking into account their circumstances may also be relevant. But, for factors set by other parties, there may also be other relevant factors to take into account, and the actuary should seek to understand these and provide appropriate advice in this context.

We note that the requirements in P3.4 again stem from the recommendations of the IFoA's Thematic Review on actuarial factors that "actuaries should compare the proposed commutation rates with annuity costs or long- term funding targets if these measures are relevant to the scheme". However, TAS 300 extends this recommendation to "all relevant bases". We do think that this requirement to compare factors with "all relevant bases" is too wide and disproportionate to the decisions being taken, especially when non-actuarial factors relevant to the decision maker have been taken into account, and we suggest the TAS should more closely reflect the recommendation of the Thematic review.

It would be helpful to clarify what is intended by the mention of 'an estimate of the cost of purchasing an insured annuity' in paragraph P3.4. Does this refer to a scheme solvency basis estimate, including the costs of buying out and/or winding up the scheme, or the cost of an individual annuity? Or is it intentionally open to interpretation?

It may also be helpful to refine the wording of "long-term funding targets" for the TAS. For example, are these intended to be aligned with the "low dependency targets" that will be required by the proposed new funding legislation, and would it be better to use this wording or at least to be clearer about the intention?

5. Do you consider that the remit of TAS 300 includes specifying how actuarial factors are set, either in relation to the value for money members should get from cash commutation or in making allowance for future changes to investment strategy in CETV factors? Please explain your rationale.

We do not agree that the remit for TAS 300 should go any further than as currently proposed in specifying how actuarial factors are set, in particular for cash commutation. Any conditions on setting of factors over and above those already set out in scheme rules is a matter for government policy and legislation, not for actuaries or the FRC.

6. Are there other provisions relating to actuarial factors which you believe should be introduced?

It would be helpful to acknowledge that trustees do not always have a power to change certain factors, and also helpful to be clear that parts of TAS 300 (e.g. P3.3) are not relevant where the factors cannot be changed.

Also, the insurer's factors in a buy-in or buy-out situation may also be a relevant comparison, and for schemes in a PPF assessment period the PPF's factors could be relevant. These examples serve to reinforce why TAS 300 should put the onus on the practitioner to make appropriate comparisons, rather than requiring comparisons with all bases.

Bulk transfers

7. What are your views on the proposed provisions in section 5 in relation to bulk transfers? Do you think that the proposed provisions would ensure the actuarial advice given to decision-makers would allow them to be fully informed when considering potential bulk transfers?

The requirements under P5.1 appear appropriate in the context of bulk transfers being considered to insurers or superfunds. However, they do not appear to us to reasonably reflect what would be required on a "normal" scheme to scheme bulk transfer, for example one that is a result of corporate activity or a decision by an employer to consolidate or segregate existing occupational pension schemes within the same employer group. In these cases the only options on the table will typically be retaining the liabilities within the existing scheme or doing the bulk transfer, so there are no other "credible" alternatives, and consideration of superfunds and/or insurance transactions may be irrelevant and misleading. We recognise that P5.1a includes the words 'where relevant' but it would be more helpful if it could be made clear that there may not be any relevant 'credible alternatives'.

Under P5.2 we do not agree that TAS 300 should require the actuary to consider the "reasonableness" of the advice from third parties. As already set out in the Actuaries Code, advice from the third party is required where the actuary does not have expertise in a particular area, so it would be unhelpful (and circular) to require the actuary to then consider the reasonableness of that advice.. In addition, any such third party advice is, we understand, "data" under TAS 100 and so the relevant provisions of TAS 100 on data apply. We therefore think this requirement should be removed, as it is already covered by a combination of the Actuaries Code and TAS 100.

We also note that P5.1d, referring to "changes to the governing body's ability to make decisions which affect the level of members' benefits", seems to require the actuary to consider an area we would expect the legal advisers to cover. It may be more appropriate to require the practitioner to draw their client's attention to such changes they may be aware of, since any advice on bulk transfers will always need to be considered by the recipient alongside legal advice (that is, the bulk transfer actuarial advice and certificate is a necessary but not sufficient part of the trustees' decision-making process).

Similarly, P5.7 could be read as suggesting the practitioner should be advising on the change in covenant, when in practice this is likely to require the trustees to seek specialist covenant and legal advice. It may be helpful to clarify that this is a factor to draw to the trustees' attention and that they would need to work with their legal and covenant advisers to assess the impact.

8. **Do you consider that the proposed changes to TAS 300 on modelling work relevant to superfunds would help mitigate the risks associated with pensions practitioners' lack of familiarity with features of the modelling required?**

Yes, for now, although we expect this section will need to remain under review as practice in this new area develops.

9. Are there other provisions relating to bulk transfers which you believe should be introduced into TAS 300?

No, although see comments under question 7.

TAS 310: CMP pensions

10. Do you have any comments on our intention to have an effective date for TAS 310 of within one year of the first CMP scheme being in operation? Is there an alternative timing that would be more appropriate? Please provide any supporting evidence for alternative timings.

Given the nature of CDC schemes, the design of the scheme is key and many aspects are 'set in stone' once the design is formalised in the scheme rules. Subsequent valuations must follow the design set out in the scheme rules.

This would suggest that the TAS should be brought into sooner rather than later, but it is also important that the time is taken to get the drafting of the standard correct. We would be happy to discuss this further with you.

Assumptions

11. Do the proposed provisions provide sufficient clarity of requirements for practitioners to set central estimate assumptions? Please set out any areas of setting CE assumptions you believe require further provisions, including reasons for these.

The provisions seem reasonable and consistent with the approach we would expect to be adopted, with the exception of the definition of "central estimate". It is really important that there is only one definition of this term, to enable schemes and actuaries to meet the requirements and this is set out already in Regulation 2 of the OPS (Collective Money Purchase Schemes) Regulations 2022 as "an estimate that is not deliberately either optimistic or pessimistic, does not include any margin for prudence and does not incorporate adjustments to reflect the desired outcome". The glossary should simply reference this definition, so that there are not two competing requirements for actuaries and trustees to comply with.

One other, minor point is that the wording of P2.2 and P2.3 suggest that the actuary sets the central estimates. In practice, the scheme actuary is more likely to be advising on the assumptions, with the decisions on the central assumptions to be used taken by the trustees, as is the case under the regulations for ongoing valuations. We suggest the wording be amended to refer to the actuary "setting or advising on" central estimates.

Modelling

12. What are your views on the proposed provisions in relation to CMP modelling? Do you expect the proposed requirements on communication to support intended users in making relevant decisions based on modelling? Do you believe there are further items where additional requirements would be appropriate?

We have several concerns over P3.2 and P3.3:

- P3.2 proposes that the probability is calculated of the live running tests being failed at some point in the future, which requires stochastic modelling, and this is explicitly referenced in P3.3. This is in contrast to both the Regulations and TPR requirements, which stop short of mandating stochastic modelling. While such modelling is very likely to be very useful when investigating the initial feasibility and soundness of the scheme design as part of the design and approval process, it is less obvious that it will be helpful to repeat such modelling on a very frequent basis such as when assessing the live running tests. This requirement should be limited to advice on the initial design of the scheme with perhaps a suggestion that in other situations the actuary assess whether circumstances are such that new stochastic modelling is warranted, or where it has been a significant time since the last such modelling was carried out.
- P3.2 suggests models should be able to "identify scenarios (including probabilities)" relating to certain events happening. It would be helpful to separate out scenario planning and stochastic modelling. This

wording could be replaced by “identify scenarios in which and, if appropriate, estimate the probability that:”

- P3.2 focuses on downside scenarios only but upside scenarios may also present challenges since they could result in more intergenerational cross subsidy than desired. A focus on downside outcomes might bias decision making towards making central estimates which err towards prudence. The TAS should require the actuary to provide both up and downside scenarios.

We suggest P3.4 is removed. The TAS100 requirements on assumptions and modelling already cover (in a better way) the considerations actuaries need to make that the model used is fit for purpose and require the actuary to identify any material biases

On P3.5, it is not clear whether this is a requirement to comment on one or two credible alternatives, or the possible range of credible alternatives. It is also unclear whether the actuary is required to comment qualitatively or quantitatively on these. We note running more than one stochastic models based on a different asset model (the key assumptions will be generally related to the asset model design and parameters) would be very onerous. We fully support the requirement that users should understand the implications of the material assumptions adopted, but in our view the provisions of TAS100 A7.3 already cover this and P3.5 is unnecessary. The proportionality requirement meaning that in some situations (for example, advice on soundness for the initial approvals process) more extensive modelling of alternatives may be appropriate than in other situations.

P3.10 again only considers negative scenarios. We note that, in contrast to P3.2, it focusses only on scenarios rather than stochastic modelling and query whether this is the intention.

Scheme design

13. What are your views on the proposed provisions in relation to Scheme design? Do you envisage any difficulties in meeting the requirements of these provisions. Please provide details to accompany your response.

We query whether the requirement in P4.1 to use data which is “as comprehensive as possible” is necessary, and indeed whether P4.1 is needed at all. This is an onerous requirement in our view. Furthermore, the TAS 100 Data principle, together with the requirements in TAS 100 A3.1 to A3,5 would appear to fully cover what is required, in that the actuary needs to assess that the data is accurate, complete and appropriate for the purpose for which it is being used.

Viability assessments

14. What are your views on the proposed provisions on completing assessments of scheme viability and certifying soundness? Do you consider it is appropriate to require practitioners to consider areas beyond those outlined in legislation when certifying soundness? Please give reasons for your response.

We strongly agree that it would not be appropriate to define soundness within the TASs, given there is no definition provided in legislation, and we do not believe it would be appropriate for the TAS to add to the legislative provisions relating to soundness. However, we are satisfied with P5.1 as drafted which simply emphasises that the actuary could go beyond the legislative provisions where they consider there to be additional ‘relevant matters’, and then lists some matters which might (or might not) be considered relevant by the actuary.

For the reasons given in our response to question 15, we strongly believe it is not feasible or indeed appropriate to require the actuary to consider as stated in P5.1 “all relevant matters” in their certification

assessment, and strongly suggest that this requirement is removed. Such a requirement would mean the actuary having to make judgements and take views which could potentially go beyond what is professionally appropriate.

We note that P5.1 c goes beyond what is required by legislation, since it is only at outset that the inflation requirement need be met. We also note that while the actuary may provide the trustees with helpful modelling to make their own assessment, in our view it is for trustees not the actuary to make judgements on "intergenerational unfairness" specific to the parameters and context of their own scheme. We suggest that the list in P 5.1 is removed as it is unhelpful.

P5.4e requires "a description of the scenarios where the scheme would no longer be sound". This is too broad. This could be reworded as "a description of the key plausible scenarios in which the scheme design would no longer be sound".

P5.4f should, as for previous requirements, be amended to cover both downside and upside scenarios which could lead a scheme to become unsound (e.g. scenarios in which very high future pension increases might be required, making the design inappropriate and hence potentially unsound / unviable).

15. Do you agree that the considerations for a practitioner certifying scheme soundness via a viability certificate are the same as those a practitioner should communicate to trustees in their own consideration as to whether the design of the scheme is sound for their viability report?

Not necessarily and as noted in Q14 we are of the strong view that P5.1 needs to change in this regard.

For the viability certificate, the actuary is being asked to give a yes/no opinion on whether the scheme design "is sound", and as clearly intended by the relevant legislation, this should cover only actuarial matters. Wider issues, including fitness for purpose, fairness, cost effectiveness and sustainability include judgements that it is unlikely for it to be appropriate or feasible for an actuary to make, and hence would make it very difficult for the actuary to sign the certificate if the considerations are wider than actuarial matters (beyond the limited legal matter that CDC Regulation 11(2)(a) requires to be taken into account, which can be done in conjunction with advice on that relatively narrow matter from the Trustee's lawyers).

We would support a requirement that the actuary should draw the trustees attention to these wider matters as part of the certification, and provide advice and analysis as appropriate to assist the trustees in their decision making. The trustees are also likely to take advice on these issues from other advisers such as lawyers, investment advisers and covenant advisers. Indeed, we note that under paragraph 3.2 of the IFoA's APS P1, when giving a legally-required certification the scheme actuary is required to draw the Trustees' attention to any matters which they believe the Trustees should bear in mind before taking any action associated with the certification – for the viability certificate this would include the wider relevant matters as noted above.

16. Are there any other areas in relation to soundness (including practitioners' communications of their work on soundness) which require further standards? Please provide as much detail as possible.

No.

Actuarial valuations

17. What are your views on the proposed provisions on actuarial valuations for CMP schemes? Are there other key areas of judgement beyond the central estimate assumptions? Are there further areas you would expect to be included? Please give reasons for your response.

We do not agree with the provisions of P6.1a, to compare assumptions with those used in the first gateway test, which will become increasingly historical. Instead, we suggest the process parallels that for defined benefit valuation reports, with a comparison being required with the assumptions used the last time the exercise was carried out.

On P6.1b, (and as for P3.5 above), it is not clear whether this is a requirement to consider one or two credible alternative sets of assumptions, or the possible range of credible alternatives for each assumption. The latter seems virtually impossible to satisfy as there would be a range of "credible alternative central estimates" for each assumption. The former would not appear to add a great deal of information, to justify the increased costs associated with multiple calculations.

P6.1b is unnecessary as it is already covered (in a better and more appropriate way) by TAS100 A7.3. It should be ideally be deleted, or if not the requirements should mirror those in TAS100 A7.3.

Unlike the defined benefit scheme funding requirements, CDC valuations are carried out annually. In our view this makes the requirements in P6.1c unhelpful and inappropriate in the normal course of events.

We agree that there may well be circumstances (for example following a significant market crash between the effective date and completion of the valuation) where it would be appropriate to allow for post valuation date experience. Our understanding is that the legislation - in particular Regulation 19(2) - was drafted with this specific point in mind. This is a trustee decision – which we might expect to be applied in extreme circumstances - and in normal circumstances it would seem reasonable for post valuation date experience to considered only at a high level (so that the trustee can be assured that any adjustments are unnecessary).

The wording of P6.1c in respect of PVE should be reconsidered against this background – perhaps simply requiring commentary on the most significant elements of PVE to the date of the report, without requiring quantification or an assessment of the impact on the benefit adjustment, and noting that this will be reflected in the next valuation.

P6.2a and b. again use the unhelpful term "credible alternatives" . Furthermore, they are again unnecessary and could be deleted as the requirements are already better covered by TAS100 A7.3 with more appropriate provisions.

18. Do you agree the required content of the valuation report set out in Appendix A is reasonable for CMP schemes? Is there further content which should be included?

The FRC could consider whether paragraph f should be expanded to provide a quantification of the factors leading to the benefit adjustment being different to last year's – we consider that the actuary and trustees should review and understand this as part of their work on the valuation.

Paragraph h should be restricted to material risks.

Member option factors

19. What are your views on the proposed provisions in relation to factors for CMP schemes? Do you envisage any issues complying with provision P7.4 regarding selection risk? Are there certain groups of members you believe this may disadvantage? Please provide reasons for your response.

On P7.2, the statement that factors “should be cost neutral on a central estimate basis” should be qualified by a reference to the scheme rules – perhaps by adding “, where this is consistent with the scheme’s rules”. We also suggest that it is the “principles of cost-neutrality” that should be followed rather than factors being required to be cost-neutral in every possible aspect.

Impact assessment

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

Your impact assessment for TAS 300 is reasonable. As noted above, we have some concerns over the current draft of TAS310, which could add substantial additional costs to the requirements of legislation. Examples include the proposed additional requirements to consider and report on ‘credible alternatives’ in several areas and considerations and reporting in relation to post valuation experience. The comment in paragraph 4.8 of the consultation document, that any costs arise solely from the legislation and regulation of CDC, does not reflect these additional requirements.