Institute and Faculty of Actuaries, Regulatory Board

Subject	Pensions Developments deep dive
Meeting date	14 May 2024
Previous Steer/Approval	No specific discussion
International issues considered?	No – UK only
Author	David Gordon, Senior Review Actuary
Reviewer	Alan Marshall, Review Actuary
Purpose	Steer

A: Executive summary

1. **This paper introduces a 'deep dive' for the Regulatory Board ('the Board') on UK pensions developments, with a focus on recent regulatory and government initiatives and associated considerations for actuaries**.

2. The Board's Horizon Scan currently contains the following entry:

   Risk associated with multiple significant pensions developments over a short period of time

3. This paper provides some background information on these developments, an analysis of the key risks, and some important issues for the Board to consider.

4. Glyn Bradley, vice chair of the IFoA Pensions Board and working at WTW, has been invited to the meeting to provide further background and expert views.

5. This paper sets out a number of initiatives in progress. The Executive recommends that this risk is retained on the Horizon Scan and the entry is adjusted in light of the Board discussion.

B: Introduction

6. Risks relating to significant UK pensions developments have been on the Horizon Scanning Register since it was first developed in 2020. There were initially separate risk entries relating to specific developments, but these were consolidated into a single risk entry when the register was last reformulated in 2023. The current risk entry is set out in full in **Appendix 1**.

7. The pace of pensions developments seems to have been accelerating. Alongside the long-running consultation on the revised scheme funding regime and steps to improve scheme governance and consolidate DC schemes, the Government introduced a range of further initiatives known as the 'Mansion House' reforms in July 2023. There are also increasingly considered options for DB consolidation, in the form of Master Trusts and Superfunds. This is all against the backdrop of significant changes to investment markets which have generally had a positive impact on the funding of DB schemes. More detail on recent pensions developments is set out in **Appendix 2**.

8. The Government and regulatory stakeholders are set out below, along with their headline pensions role:

- Department for Work and Pensions (DWP) – overall responsibility for pensions policy, in particular DB scheme funding and DC consolidation
- HM Revenue & Customs – pension scheme taxation
- House of Commons Work and Pensions Committee – conducting ongoing inquiry on DB pension schemes
- The Pensions Regulator (TPR) – regulates workplace pension schemes, in particular setting codes of practice and guidance for pension scheme trustees
- Financial Conduct Authority (FCA) – regulates retail pension providers and collective investments
- Financial Reporting Council (FRC) – sets technical actuarial standards
- Institute and Faculty of Actuaries (IFoA) – sets ethical standards and guidance, and issues practising certificates for scheme actuaries

C: Relevant actuarial regulatory and standards activity

9. This section provides key examples of recent regulatory and standards activity relevant to pensions.

10. The Board's Climate Change Guidance published earlier in 2024 highlights that pensions actuaries "should have an awareness of how climate risk and sustainability issues may affect their work" and includes relevant case study examples.

11. In April 2023 the AMS corporate pensions thematic review highlighted the need for clear communications around funding and risk. The findings (along with those from other AMS reviews) have been utilised to help formulate future professional skills scenarios.

12. Having previously updated TAS 100 from 1 March 2023, the FRC has also updated the specific TAS 300: Pensions, from 1 April 2024. Among other changes, this introduces new provisions relating to actuarial factors that had previously been recommended by the first AMS thematic review on actuarial factors. The FRC is planning a further update to TAS 300 to reflect the updated scheme funding regime.

13. Less recently, the Board's 2022 Risk Alert on the impact of high inflation, highlighting areas for consideration, remains relevant to pensions practitioners as inflation recedes.

14. The AMS team is currently scoping a thematic review on pension plan design.

15. These actions are in addition to regular regulatory bilateral meetings, in particular with TPR, that have been established since the final JFAR meetings, and bilateral meetings with the Association of Consulting Actuaries. The regulatory policy team has also contributed where relevant to IFoA responses to regulatory consultations.

D: What are the risks for actuaries and their clients?

16. There are several risks beyond the headline risk of "*multiple significant pensions developments over a short period of time*":

17. **Sub-optimal outcomes for pension schemes** – given the volume of initiatives due to be implemented or being planned, there is a risk either that actuaries are unable to manage changes effectively for multiple clients in short timescales (particularly if they are time critical); or are not all fully aware of all the opportunities that may be available to their clients, with the resulting sub-optimal outcomes for pension schemes and their members.

18. **Unintended regulatory outcomes** – with multiple Government and regulatory bodies changing rules over a short time horizon and with sometimes conflicting objectives, there is a risk of inconsistencies that drive unintended behaviour among pension schemes and their advisors.

19. **Regulatory overload** – the pace and volume of new initiatives may adversely impact the quality of regulation which is implemented.

20. **Supply of actuarial services** – significant regulatory changes, boosted by continuing high transactional volumes could lead to pressures on capacity for providing actuarial services with knock-on impact on quality or availability of advice. This risk may be enhanced by the perception that the long-term demand for pensions actuaries will fall, leading to continuing reduction in supply of entrants to the profession wishing to specialise in DB pensions.

21. **Specific current reputation risk** for actuaries around the Virgin Media case, where actuaries (to other schemes) have failed to provide the relevant certification of scheme amendments from 1997 to 2016 (sometimes as the certification was not requested).

E: What mitigations are already in place?

22. The IFoA's regulatory framework is the principal mitigation for many of the above risks:

    - The standards framework of the Actuaries' Code, actuarial profession standards and associated guidance, along with CPD requirements and Practising Certificates for scheme actuaries
    - The IFoA Quality Assurance Scheme (QAS) – many pensions actuaries, and in particular a high proportion of scheme actuaries, work for accredited QAS firms
    - The FRC's Technical Actuarial Standards and associated guidance.

23. There are several relevant Professional Skills videos covering competing workloads and specific pensions scenarios.

    The IFoA, industry organisations and multiple firms have a record of scrutinising and responding to each consultation to minimise the risk of inconsistent rules. The IFoA, in particular the Pensions Board, proactively engages with key stakeholders – primarily TPR and DWP – to highlight the issues and risks with proposed changes.

24. TPR's new general code of practice, which consolidates and updated 10 existing codes into one "sets out in detail what TPR expects of a scheme that is required to maintain an effective system of governance."

F: Potential actions

25. Two potential regulatory actions would be to issue a Risk Alert or to initiate a thematic review.

Risk Alert

26. IFoA Risk Alerts are “a series of alerts drawing attention to specific issues where the IFoA asks Members (and others) to think carefully about the consequences of actions they are taking or not taking. The information in the Risk Alert is published to support Members and to protect the public interest. The Risk Alert is not mandatory guidance.”

27. Past Risk Alerts specific to pensions actuaries have covered: GMP equalisation, disclosure of information relating to models, and commutation factors. More general Risk Alerts which have relevance to pension actuaries have included: AI, high inflation, climate and sustainability risks, COVID, GDPR and model manipulation.

28. The Executive does not consider there are new specific risks associated with the volume of regulatory developments which would justify a Risk Alert.

29. Depending on the outcome of the Virgin Media appeal, and any Government action, the Board may need to consider whether a Risk Alert is appropriate as it will relate to a specific topical issue where action may be required by IFoA members. The Executive will be monitoring this and liaising with regulators and other stakeholders.

Thematic Review

30. The AMS Team carries out thematic reviews on topics identified as having the potential to provide useful insight into the work of our members. As indicated above, the team is currently scoping a review on pension plan design. The team is also bringing to the Board Strategy Day in October proposals for future reviews.

31. Previous reviews on pensions practice have been retrospective exercises examining examples of actuarial advice already provided. The Executive suggests that any thematic review examining work stemming from the current legislative changes should be carried out in a number of years time, once a body of advice has been given. However, the Executive welcomes ideas for future review topics.

F: Conclusions

32. The rules around how DB Pensions are funded and run are currently developing at a high pace. It is important for those with responsibility for setting regulations or standards to keep abreast of developments and act accordingly.

33. Actuaries play a key role in ensuring new or amended requirements are implemented appropriately for the schemes (or their sponsors) they advise. As with all actuarial work, this needs to be done in an ethical manner.

34. Although there are risks around the pace of regulatory change, the actuarial standards framework and other regulatory interventions remain strong mitigants.

35. The Board is asked to reaffirm this risk to be:

- Impact: Major
- Likelihood: Possible
- Overall risk status: High
- Residual risk status: Medium
  (reflecting mitigations)

36. The Regulatory Board is invited to discuss the risks identified in this paper and provide a steer on any actions that may be appropriate. The Executive, working with the Horizon Scanning sub-group, will then update this risk entry to reflect the discussion.

G: Appendices

- **Appendix 1** – Horizon Scanning Register entry on multiple pensions developments
- **Appendix 2** – summary of current pensions developments