

December 2016

Feedback Statement

Consultation: Revised Specific TASs

Analysis of responses to the May 2016 consultation

Annex 2: TAS 300: Pensions

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1 Introduction

- 1.1 In May 2016, the Financial Reporting Council published a consultation package on revisions to its Technical Actuarial Standards (TASs) for areas of specified work in insurance, pensions and funeral plan trusts on matters where there is a high degree of risk to the public interest.
- 1.2 Annex 2 of the consultation package covered technical actuarial work concerning pensions. The Annex included an exposure draft of TAS 300: *Pensions* together with a paper setting out the rationale for the proposed scope and provisions of TAS 300, an impact assessment and a list of questions upon which we were seeking views. The consultation period ended on 5 August 2016.

Responses

- 1.3 We received 20 responses to Annex 2 on TAS 300 of which 15 were from practitioners. The other respondents were the Institute and Faculty of Actuaries (IFoA), the Association of Consulting Actuaries (ACA), the Society of Pensions Professionals, the Pension Protection Fund and the Pensions Regulator (tPR). The list of respondents is included in Appendix A. Their responses can be found [here](#).
- 1.4 We also received feedback at various outreach events on the consultation which were held at locations across the country.
- 1.5 After the formal consultation, both users and practitioners have had the opportunity to provide further informal input. We thank all those who contributed.

Summary

- 1.6 In finalising the text of TAS 300 we have taken account of comments we received in response to the exposure draft. We have also considered the responses to the other annexes in the consultation package.
- 1.7 Respondents generally supported the proposed scope of TAS 300 and the principles proposed in the exposure draft. However several respondents considered that technical actuarial work for employers concerning scheme funding, scheme modifications and bulk transfers should be added to the scope of TAS 300. It was also suggested that the section 75 debt on employer calculation should be in scope. Taking account of this feedback, we have reviewed our assessment of the associated risks to the public interest and we have now included this work in the scope of TAS 300.
- 1.8 The provisions in the final version of TAS 300 are broadly the same as those that appeared in the exposure draft. The text has been amended in places in order to address some concerns and to improve clarity.
- 1.9 In response to feedback, we have decided to permit compliance with the Pensions TAS and existing Generic TASs instead of TAS 300 and TAS 100: *Principles for Technical Actuarial Work* for Scheme Funding exercises with an effective date on or before 1 October 2016. In addition early adoption of the revised Specific TASs and TAS 100 will be permitted for work completed on or after 1 April 2017.
- 1.10 Section 2 summarises the comments that we received in answer to the specific questions that were posed in Annex 2 of the consultation paper on Scope. Section 3 considers the comments on the provisions we proposed. Section 4 considers comments

on our impact assessment and Section 5 considers the further comments we received. Section 6 explains the changes that we have made to the exposure draft of TAS 300.

- 1.11 We have published the final version of [TAS 300](#) along with a [marked up version](#) to show changes from the exposure draft.

2 Analysis of responses – scope of TAS 300

- 2.1 The questions in Annex 2 of the consultation paper concerning the scope of TAS 300 are repeated below with a summary of points made in the responses and our reactions to those responses.

Scheme funding and financing

P.1.1 Do you agree that technical actuarial work required by legislation to support decisions on contribution requirements or benefit levels should be in the scope of TAS 300?

P.1.2 Do you agree that technical actuarial work to support employers in fulfilling these duties under section 229(1) of the Pensions Act 2004 should not be in the scope of TAS 300?

- 2.2 All respondents agreed that technical actuarial work required by legislation to support decisions on contribution requirements or benefit levels should be in the scope of TAS 300. Some respondents suggested that the term “benefit levels” should be clarified. Benefit levels include the amount of a pension or other benefit, the date when a pension or other benefit is first paid and the rate at which a pension is increased. The work concerning changes to benefit levels is for schemes where the funding position drives the changes to the benefit levels or where the actuarial work affects the benefits directly (e.g. advice concerning public sector pension benefits) in line with legislation. It is not intended to cover scheme modifications which are not an integral part of a funding or financing exercise.
- 2.3 Some respondents agreed with the proposal to exclude work for employers on Scheme Funding. However seven respondents, including tPR and the ACA, said that they considered that work for employers on Scheme Funding should be in the scope of TAS 300. These respondents considered that the work for both trustees and employers should be of the same quality and therefore the same standards should be required for actuaries advising employers as are required for actuaries advising trustees. One respondent suggested that there could be problems and risks if advice to one party is subject to TAS 300 and the advice to the other party is not. Another suggested that having different standards applying may increase the potential for acrimonious negotiations.
- 2.4 We also had feedback at several outreach events from actuaries who considered that work for employers should be in scope. There is concern that in the current uncertain business environment and with the substantial deficits being disclosed, employers are increasing the pressure on trustees and their advisers to keep contributions to a minimum level. Inclusion of this work within TAS 300 was seen as a mitigant to this risk.
- 2.5 Given this feedback and also with the increase in public concern regarding issues affecting defined benefit pensions, we have decided to review our assessment of the degree of risk to the public interest of technical actuarial work for employers on Scheme Funding. After considering the public interest risks holistically we have decided to alter our risk assessment and include actuarial work for employers on Scheme Funding in the scope of TAS 300. We have therefore inserted the following text into the scope section of TAS 300:

*“Technical actuarial work for an employer concerning a **Scheme Funding assessment** for which there is a statutory or contractual requirement for the **governing body** to reach agreement or consult on the matter with the employer.”*

- 2.6 We have updated the output from the risk assessment process in Appendix A to the covering consultation feedback statement to reflect our revised risk assessment. We have moved employer work on scheme funding into the high impact and medium-high likelihood box.

Factors for individual calculations

P.1.3 Do you agree that technical actuarial work relating to the derivation of actuarial factors should be in the scope of TAS 300?

P.1.4 Do you agree that calculations using actuarial factors should not be in the scope of TAS 300?

- 2.7 Most respondents agreed that technical actuarial work relating to the derivation of actuarial factors should be in the scope of TAS 300.
- 2.8 However several respondents suggested that TAS 300 should not apply, or there should be some easement, for cases where factors are derived for a one-off piece of work relating to a small change to one member's benefits. We consider that a proportionate approach should be taken when dealing with small changes and therefore compliance should not be onerous. We therefore do not consider that an easement or carve-out is necessary.
- 2.9 All respondents agreed that routine calculations using predetermined factors should not be in the scope of TAS 300.
- 2.10 Two respondents noted that the provision of instructions to third parties on the use of actuarial factors is in the scope of the current Pensions TAS with one respondent noting that this work is now in the scope of TAS 100. The other respondent suggested that this work should be in the scope of TAS 300. Having considered the feedback we have maintained our decision not to include this work in the scope of TAS 300 as the risks relating to this work are process-related rather than actuarial. Setting the factors to be used by third parties does require judgement and is in the scope of TAS 300.

Incentive exercises

P.1.5 Do you agree that technical actuarial work concerning incentive exercises should be in the scope of TAS 300?

- 2.11 All respondents who answered the question agreed that technical actuarial work concerning incentive exercises should be in the scope of TAS 300.

Scheme modifications

P.1.6 Do you agree that technical actuarial work for a governing body relating to scheme modifications of accrued benefits should be in the scope of TAS 300?

P.1.7 Do you agree that technical actuarial work for scheme sponsors relating to scheme modifications of accrued benefits which are not incentive exercises should not be in the scope of TAS 300?

2.12 All respondents who answered the question agreed that technical actuarial work for a governing body relating to scheme modifications of accrued benefits should be in the scope of TAS 300.

2.13 A significant number of respondents, including tPR and the ACA, considered that technical actuarial work for sponsors relating to scheme modifications of accrued benefits should be in the scope of TAS 300. It was noted that in some cases the governing body may not be involved in making decisions and the sponsor may have the sole power to make decisions. One respondent suggested that there could be risks if one party involved is subject to a TAS and the other is not. It was also noted that much of the key actuarial work is in the development of proposals and may be performed for the sponsor before the trustees get involved.

2.14 Taking account of this feedback and also with the increase in public concern regarding matters concerning defined benefit pensions, we have reassessed the risks to the public interest concerning sponsors' decisions on scheme modifications. After considering the public interest holistically we have decided to alter our risk assessment. As a consequence technical actuarial work for sponsors on scheme modifications is now included in the scope of TAS 300. We have updated the output from the risk assessment process shown in Appendix A of the covering consultation feedback statement to reflect our revised risk assessment which is now medium-high impact and medium-high impact likelihood.

Bulk transfers

P.1.8 Do you agree that technical actuarial work for a governing body relating to bulk transfers should be in the scope of TAS 300?

P.1.9 Do you agree that technical actuarial work for scheme sponsors relating to bulk transfers should not be in the scope of TAS 300?

2.15 All respondents who answered the question agreed that technical actuarial work for governing bodies relating to bulk transfers should be in the scope of TAS 300.

2.16 Four respondents asked for clarity on whether DC to DC transfers are in the scope of TAS 300. The wording does not distinguish between DB and DC schemes and therefore any technical actuarial work to support a DC to DC transfer is in the scope of TAS 300.

2.17 A significant number of respondents considered that work for sponsors on bulk transfers should also be in the scope of TAS 300. Some respondents noted that a governing body may not always be involved in developing advice and it was suggested that the same standards should apply to all actuaries advising in this area.

2.18 Taking account of this feedback and also with the increase in public concern regarding matters concerning defined benefit pensions, we have reassessed the risks to the public

interest concerning sponsors' decisions on bulk transfers. After considering the public interest holistically we have decided to alter our risk assessment. As a consequence technical actuarial work for sponsors relating to bulk transfers is now included in the scope of TAS 300. We have updated the output from the risk assessment process shown in Appendix A of the covering consultation feedback statement to reflect our revised risk assessment.

Other areas of work

P.1.10 Do you agree that the areas of technical actuarial work described above should not be in the scope of TAS 300?

P.1.11 Are there any areas of technical actuarial work including those described above which respondents consider should be in the scope of TAS 300?

2.19 Most respondents were in broad agreement with the proposed scope of TAS 300 with the exception of advice provided to scheme sponsors as noted above.

2.20 However it was also suggested that the debt on employer calculations performed under section 75 of the Pensions Act 1995 should be in the scope of TAS 300 as members' benefits can be materially affected in some cases, there are a number of judgements which have to be made and the calculation results in a one-off payment unlike Scheme Funding where adjustments can be made later. Section 75 debt calculations are also used to determine the amount of recovery payment (contribution notice or financial support direction) which the Pensions Regulator may seek from a person or entity in relation to an under-resourced pension scheme. We have reviewed our assessment of the risk taking account of the current public concern about deficits in defined benefit pension schemes and have decided to alter our risk assessment. As a consequence this work is now included in the scope of TAS 300. Although we have not added any specific provisions, in order for this work to be subject to the core provisions of TAS 300, we have added the following text to the scope section of TAS 300:

“Debt calculations

The calculation of a deficiency of assets in accordance with section 75(5) of the Pensions Act 1995”

2.21 We have updated the output from the risk assessment process in appendix A to the covering consultation feedback statement moving the section 75 calculation into the medium-high impact and medium-high likelihood box.

2.22 Two respondents suggested that actuarial work supporting the provision of DC projections should be in the scope of TAS 300 as decisions on investment and contributions can have a material effect on an individual's wealth. We understand the view but other specific standards already apply to these projections (the FCA's Conduct of Business sourcebook and the FRC's AS TM1: *Statutory Money Purchase Illustrations*). Any technical actuarial work in this area will be covered by TAS 100.

2.23 One respondent noted that certain areas of decision making can have a material effect on funding. Examples given included long-term investment decisions such as longevity or interest rate and inflation hedging, buy-ins, reconstruction of employers especially when they affect the employer covenant and the impact of legislative changes (e.g. the rate of statutory pension increases).

2.24 These are detailed areas where we consider that guidance may be more appropriate than standards. The IFoA has established a working group to consider what support should be given to its members on integrated risk management (IRM) which may cover some of these areas.

3 Analysis of responses – provisions of TAS 300

- 3.1 The questions in Annex 1 of the consultation paper concerning the provisions of TAS 300 are repeated below with a summary of points made in the responses and our reactions to those responses. In the headings below the provision numbers are those in the exposure draft.

Core provisions

P.2.1 Do you have any comments on the proposed core provisions?

Overlap between TAS 100 and TAS 300

- 3.2 Some respondents considered that some or all of the core provisions do not add anything beyond the principles and provisions in TAS 100. For example one respondent said that the data provisions in TAS 300 are adequately covered by provisions 2.4 and 2.5 of TAS 100. The provisions in TAS 300 build on the principles and provisions in TAS 100 with the derivation of assumptions being required as well as the rationale while we continue to consider that there is merit in covering matters which are very specific to pensions (benefit uncertainty and discretionary benefits) in TAS 300.

Provision 3

Exposure draft text

Mortality assumptions shall reflect the current and anticipated membership of the **pension scheme** in question.

- 3.3 Some respondents said that provision 3 no longer needed to require that assumptions reflect the membership of the scheme as practices have moved on since the Pensions TAS was first issued. Instead it was suggested that a more appropriate provision would be a general requirement that the assumptions used should, where appropriate, reflect the membership, benefit structure and financial features of the scheme. We agree and have amended provision 3 as follows:

*“**Material** assumptions used shall, where appropriate, reflect the membership, benefit structure and financial features of the **pension scheme**.”*

Provision 4

Exposure draft text

Communications shall explain the derivation of discount rate, mortality (base rates and projections), price inflation and other material assumptions.

- 3.4 Several respondents suggested that the list of assumptions included in provision 4 is not needed and that in some situations other assumptions may be more material than those listed. We accept this point and have removed the list. It was also suggested that communications should explain the uncertainty around the assumptions. We agree and have made a further change to provision 4 which is for communications to explain any limitations in the data used to derive the assumptions. The revised provision is:

*“Communications shall include the derivations of **material** assumptions used in the **technical actuarial work** and any limitations in the **data** used to derive those assumptions.”*

Provision 5

Exposure draft text

Communications shall state the extent to which assumptions take account of past experience of discretionary practices and information about the exercise of discretion in the future.

- 3.5 It was suggested that provision 5 was a useful reminder but the matter was adequately covered by TAS 100. We accept the feedback and have deleted provision 5 while the revised provision 3 covers the matter at a generic level.

Provisions for specified work – Scheme funding and financing

P.2.2 Do you have any comments on the proposed provisions for scheme funding and financing?

Provision 7

- 3.6 Provision 7 (now provision 6 in TAS 300) requires communications to include sufficient information for a governing body to understand the level of prudence in the assumptions. Respondents supported this provision which replaces the more prescriptive “neutral estimate” requirement in paragraph E.2.10 of the Pensions TAS. However several respondents noted that the Pensions Act 2004 does not require assumptions to include a margin for prudence but instead requires assumptions to be chosen prudently. Nevertheless assumptions chosen prudently may have margins for prudence so we consider that the proposed wording is appropriate.
- 3.7 It was also suggested that “level of prudence” is colloquial and that the provision should refer to “margins for adverse deviations” or “margins for prudence”. We consider that “level of prudence” is clear and well-understood so have not amended the wording.

Provision 8

- 3.8 Provision 8 (now provision 7 in TAS 300) requires an explanation of the change in the level of prudence. Four respondents suggested that any explanation should only be required for material changes. We have inserted “material” into the provision.
- 3.9 One respondent said that the provision seems to imply that the level of prudence needs to be quantified. This is not our intention. While there could be a quantification a description of the change in level of prudence might suffice.

Provision 11

- 3.10 Several respondents considered that the wording of provision 11 (now provision 10 in TAS 300) implies that the actuary needs to be an employer covenant expert. This is not our intention. If an actuary is advising trustees on assumptions then it should be made clear if an adjustment has been made for the strength of the employer covenant, while if the trustees have made an adjustment this should also be made clear in subsequent communications.

Provision 13

- 3.11 Several respondents suggested that the list of information to be provided to a user is not needed as it is too prescriptive and the information to help users understand funding risks should be left to the judgement of the actuary. One respondent noted that some schemes are hedged so that cash flows are not relevant – however many schemes are not hedged and those that are will rarely have fully hedged all of their risks. It was also suggested that projections may not be helpful. However the proposed wording permits narrative which we consider should address this concern.
- 3.12 We consider that cash flows and projections are important information for governing bodies as they provide insight into how the financial position of a pension scheme will evolve. The proposed provision (now provision 12 in TAS 300) allows actuaries to use their judgement in determining how to present the information which included flexibility to reference the implications of any hedges. We have therefore kept the list.

Provision 14

- 3.13 Several respondents considered that the wording could be clearer with four suggesting alternative wording to reflect better the work which actuaries should be performing. We have considered the feedback and suggestions for alternative wording and have amended the provision. Some respondents considered that the wording implied that the actuary needs to be an employer covenant expert. This was not our intention although we consider that the actuary should have an understanding of how employer covenant may affect trustees' decisions. We have amended the provision (now provision 13 in TAS 300) to make it clearer as follows :

*“Communications shall contain sufficient **actuarial information** to support the governing body in:*

- (a) understanding how funding and investment risks (and their interaction), or a change in employer covenant, could affect the **governing body's** funding and investment objectives; and*
- (b) managing a funding and investment strategy to achieve these objectives.*

- 3.14 Two respondents noted that integrated risk management information might not be provided at a scheme funding exercise. As noted in paragraph 2.24 the IFoA has established a working group to consider what support should be given to its members on IRM.

P.2.3 Do you have any views on whether TAS 300 should contain detailed requirements on the contents of Scheme Funding reports?

- 3.15 All but one of the respondents considered that the detailed requirements for Scheme Funding reports should not be in TAS 300.
- 3.16 In the consultation we asked whether respondents considered that the content of the Scheme Funding report should be in TAS 300 (as an appendix) or another document. Most respondents considered that the content of the report should be specified in another document. We have retained the requirements as an Appendix but, in the light of this feedback, we will consider moving the list to another document at some stage in the future.

Provisions for specified work – Factors for individual calculations

P.2.4 Do you have any comments on the proposed provision for factors for individual calculations?

Provision 18

- 3.17 There was general support for the proposed provision.
- 3.18 Several respondents noted that there was duplication in the second and third bullets. To address this we have removed the text “and for **actuarial factors** used for other purposes” from the third bullet (now provision 17(c) in TAS 300).
- 3.19 One respondent suggested that the first bullet should bring out different classes of members. Another suggested that the fifth bullet should cover the frequency and timing of factor reviews. We have not changed the provision as the detail suggested can be inferred from the proposed provision and bullets (now provisions 17(a) and (e) in TAS 300).

Provisions for specified work – Incentive exercises, scheme modifications and bulk transfers

P.2.5 Do you agree with the proposed provision for incentive exercises, scheme modifications and bulk transfers?

Provision 19

- 3.20 There was general support for the proposed provision.
- 3.21 One respondent suggested that the provision should also require the impact on funding to be shown (as well as the impact on members’ benefits). We agree that this is good practice when there is an impact on the funding requirements. However this provision is focussed on the impact on members where the public interest is in our view greatest and we have decided not to extend the provision to cover funding implications.
- 3.22 Two respondents suggested that the provision should explicitly distinguish between members directly affected and those indirectly affected. We have not amended the principle as it does not limit the information to members directly affected and therefore it can be inferred that information needs to be provided to members who are indirectly affected.

4 Impact assessment

P.3.1 Do you agree that the replacement of the Pensions TAS with TAS 300 will not lead to disproportionate costs?

P.3.2 Do you have any comments on our analysis of the impact of the changes set out in section 3?

- 4.1 Of the 20 responses we received to question P.3.1, 17 respondents agreed with our assessment that replacement of the Pensions TAS by TAS 300 would not lead to disproportionate costs.
- 4.2 Four respondents suggested that there may be additional costs for Scheme Funding exercises where work starts before TAS 300 is published but after it comes into effect.
- 4.3 Having considered the feedback we have decided to permit compliance with the Pensions TAS and existing Generic TASs instead of TAS 300 and TAS 100 for Scheme Funding exercises with an effective date on or before 1 October 2016 as work on many of these exercises may have been started before the publication of the revised TASs.
- 4.4 In addition early adoption of the revised Specific TASs and TAS 100 will be permitted for work completed on or after 1 April 2017.
- 4.5 A statement explaining the transitional arrangements is available [here](#):

5 Further comments

P.4.1 Do you have any comments on the text of exposure draft of TAS 400?

P.4.2 Do you have any further comments on the proposals in this consultation?

- 5.1 Three respondents asked for clarification that the provision on factors, incentive exercises, scheme modifications and bulk transfers apply to public sector schemes as well as private sector schemes. TAS 300 does not distinguish between private and public sector schemes and therefore these provisions do apply to public sector schemes.
- 5.2 There were several minor presentational points made which we took into account in our drafting of the final version of TAS 300.
- 5.3 It was suggested that the names of the Specific TASs should not use numbers as this may confuse users and that TAS 300 could be TAS-Pensions for example. To avoid confusion we would suggest that practitioners refer to the full name of Specific TASs when communicating with users, e.g. TAS 300: *Pensions*.
- 5.4 One respondent suggested that consideration should be given to including a list in TAS 300 of the major areas of work which are not in its scope. The risk assessment matrix in the appendix to the feedback statement on the Specific consultation lists major areas of work not in the scope of TAS 300.

6 Changes to TAS 300: *Pensions*

Introduction

6.1 As a result of the responses we received to the consultation we have made changes to the text in the exposure draft of TAS 300: *Pensions*. The material changes made are described in this section.

Scope of application

6.2 In line with amendments made to the other specific TASs, we have added text to clarify the geographic scope of TAS 300.

6.3 We have added text to bring technical actuarial work for employers on any matter for a Scheme Funding assessment for which there is a statutory or contractual requirement for the governing body to reach agreement or consult on the matter with the employer into the scope of TAS 300.

6.4 We removed “for a **governing body** of a **pension scheme**” from the description of the technical actuarial work for scheme modifications and bulk transfers so that technical actuarial work for employers in these areas is now in the scope of TAS 300.

6.5 We have added text to bring section 75 debt calculations into the scope of TAS 300.

Compliance

6.6 We have clarified the text on departures to include specific reference to TAS 300.

6.7 We have removed the sub-headings “materiality”, “proportionality” and “disclosure”.

Core provisions

6.8 The numbering of the provisions is the numbering used in the exposure draft of TAS 300.

Provisions 3 and 5

6.9 These provisions have been replaced by a new provision which covers assumptions generally.

Provision 4

6.10 We have removed the list of assumptions and added communication of any limitations in the data used to derive the assumptions.

Provisions for specified work

6.11 We have added a preamble to confirm that the following provisions apply to the relevant area of work as specified in the scope of TAS 300.

Provision 7

6.12 We have changed “**governing body**” to “**user**” following the extension of the scope to include technical actuarial work for employers.

Provision 8

6.13 We have added “**material**” before “change in the level of prudence”.

Provision 14

6.14 We have changed the provision so that it better reflects the work which actuaries should be performing.

Provision 15

6.15 We have added “2004” after Pensions Act.

Provision 18

6.16 We have deleted “and for **actuarial factors** used for other purposes” from the third bullet as it duplicated text in the second bullet.

Appendix A

6.17 We have deleted “and approach to integrated risk management” from the second bullet.

Appendix A: List of respondents to the May 2016 consultation on TAS 300: *Pensions*

Professional and trade bodies

The Association of Consulting Actuaries
The Institute and Faculty of Actuaries
The Society of Pensions Professionals

Insurers, consultants and actuaries

Aon Hewitt
Barnett Waddingham
BWCI Consulting Limited
Capita Employee Benefits
Censeo Actuaries and Consultants
First Actuarial LLP
Government Actuary's Department
Hymans Robertson LLP
JLT Employee Benefits
Lane Clark & Peacock LLP
Mazars
Mercer
Punter Southall
Royal London Consulting Actuaries
Willis Towers Watson

Other entities

The Pension Protection Fund
The Pensions Regulator