LCP's response to the FRC's consultation on proposed changes to TAS 300

3 August 2023

This document sets out LCP's response to that part of the Financial Reporting Council's consultation relating to TAS 300 published on 9 May 2023 (the "Consultation"). We are responding separately to that part of the same consultation on TAS 310.

Who we are

LCP is a firm of financial, actuarial, and business consultants, specialising in pensions, investment, insurance, energy, health and business analytics. We have around 1,000 people in the UK, including 160 partners and over 300 qualified actuaries.

The provision of actuarial, investment, covenant, governance, pensions administration, benefits advice, and directly related services, is our core business. About 80% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment strategy. The remaining 20% relates to insurance consulting, energy, health and business analytics. LCP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

Our overall thoughts

We have set out below our answers to the specific questions posed in the consultation.

In summary:

- We support deferring making changes to the requirements under scheme funding and financing. However, the new scope drafting could imply a substantial increase in the work subject to TAS 300. We understand this is not your intention and urge a return to the original scope wording.
- We are largely supportive of the changes being made under the factors for individual calculations section, but we do have one or two areas of concern which we highlight.
- We have great concerns about the drafting approach for the expanded bulk transfer section. We also seek clarification of the status of buy-in work.

Whilst writing can we query the wording used for compliance statements in paragraph 1.7 of the proposed TAS 300, which duplicates that in TAS 100, TAS 400 and the proposed TAS 310. We think that this paragraph should read "**Communications containing** actuarial information that is material…." as without these two additional words it seems that many internal working papers would need to be TAS compliance stamped which we assume is not your intention. The 2016 editions of the TASs were phrased along the lines we propose and we are not aware that you intended the widening that you seem to be delivering.

We are happy for LCP to be named as a respondent to the Consultation and happy for our response to be in the public domain. We are happy for you to reference our comments in any response.

We look forward to seeing the final version of TAS 300 in due course and trust that our comments are helpful. We are responding separately to your proposals on TAS 310.

Partner

LCP's response to the questions in the Consultation

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?**

Collective money purchase schemes

We support excluding technical actuarial work in relation to collective money purchase schemes from TAS 300 and dealing with the matter in the new TAS 310. As CDC work is subject to very different considerations to that which applies to DB work it makes sense to undertake this separation and now that the regime is live, albeit with no active schemes at the current time.

Scheme funding and financing

The work falling under this heading has been changed from that *"required by legislation to support decisions on funding, contribution requirements or benefit levels"* and that *"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"* to work *"concerning pension scheme funding and financing"*.

You present this as a simplification (para 2.5 of the consultation document), but our reading is that by no longer linking this definition to legislation for the trustee work, or to legislation or contractual requirements for employer work, you have substantially increased the scope of work falling into section 2 of TAS 300 (and section 1). We understand, from a meeting with one of your colleagues on 19 May 2023, that this is not your intention.

The reason why your wording achieves the scope increase is because a high proportion of advisory work for pension schemes might be said to be concerning pension scheme funding and financing, whether to a greater or to a lesser or even tangential extent. For example, work on preparing scheme sponsors' financial statements (or even just advising on assumptions to be used) might or might not be regarded as related to pension scheme financing. Work on PPF levies would certainly seem to be concerning pension scheme financing, as would GMP equalisation work. Major strategic advice such as journey planning, contingent funding arrangements and investment strategy relate to pension scheme funding and financing but are not required by legislation, so also now seem to be in scope. Work on member option terms, as well as being dealt with in section 3 of TAS 300 would also seem to fall within section 2 by virtue of it also concerning pension scheme funding and financing. And work on scheme funding and financing would cover much of the day-to-day work of actuaries working in-house in pensions roles.

Any such scope increase is also unworkable given that the requirements set out in section 2 of the proposed TAS 300, which are little changed from their equivalent in the current TAS (other than the newly introduced P2.9), have been drafted specifically with the old narrow definition in mind and don't have a meaning when applied to wider 'scheme funding and financing work' as described above.

We strongly suggest that you revert to the old scope definition, which is well understood.

You asked, in the above meeting, whether, as a result of the old scope definition, there was a disconnect between the trustee and corporate work brought into scope, in relation to formal scheme funding work. We are not aware of any such disconnect.

Incentive exercises and scheme modifications

We support your separating out provisions relating to incentive exercises and scheme modifications from those relating to bulk transfers.

Bulk transfers

Whilst we support having separate provisions relating to technical actuarial work in relation to bulk transfers, we have a number of concerns in this area. We expand on this in our answer to Question 7.

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?**

Yes, we agree that there is no need to make any changes to the provisions relating to scheme funding and financing until there is greater legislative certainty. However, we think that you should start your review work now, if you have not already done so, so that new TAS 300 requirements have been consulted on and finalised in time for the start of the new regime, which we understand is currently expected to apply from April 2024.

We think that the disclosures for the scheme funding report set out in Appendix A have no place in a Technical Actuarial Standard. Regulation 7 of the Scheme Funding Regulations 2005 already sets out some of the required contents of the report on the actuarial valuation. Some or all of the contents of Appendix A could be transferred to this Regulation. We suggest that this is carried out as part of the settling of the new regime. If Appendix A is to be retained within TAS 300 we think you should clarify whether these requirements are subject to the guidance on proportionality. Our understanding is that they are not.

We support the inclusion of the new P2.9, but suggest you revisit the last part which appears to be very open-ended, in that it seems to be inviting speculation on the outcome of any future review of actuarial factors.

The emboldened term, “Scheme Funding assessment”, is missing from the glossary.

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 agree with the introduction of a frequency of review inclusion in actuarial factors written advice and are supportive of P3.1. However, we note that this goes beyond the recommendations of the IFoA thematic review which recommended three years as the normal maximum time between commutation rate reviews.

In relation to P3.2 we have some concerns about the actuary having to seek to arrange for the review to take place when the scheme funding assessment is being undertaken, for the reasons you give in the consultation document. For example, where the actuary knows that it won’t be feasible to have concurrent reviews or feels that it is not best to do so, does the effect of P3.2 mean that the actuary must nevertheless raise the issue? It would seem better to keep some flexibility in the timing of the review, so that it can be carried out at the best time for consideration by all parties and subsequent decision-making and implementation.

Current practice is that factor reviews are not usually carried out at the same time as the funding valuation because of the practical difficulties in doing so, but the funding valuation will have an eye towards the likely outcome of the next factor review.

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 actuarial factor review work we always seek to ensure that decision-makers have sufficient actuarial information for them to be able to take decisions, and so bring the factor review to a conclusion. However, decision-makers will likely need to have other information made available to them before they are fully equipped to take a decision.

Turning to each element of what is a significantly extended Section 3:

- The proposals in P3.3 are not dissimilar to those in the current paragraph 17 (putting aside the soon to be removed 17(e)). We support the additions set out in P3.3 b and c.

- P3.4 and P3.5 are new to TAS 300, but we cover much of these provisions in our review work, in particular, a comparison of commutation factors with the CETV basis has been an important part of actuarial factor advice for some time. In contrast we are not sure why an estimate of the cost of purchasing an annuity is always relevant when advising on commutation factor terms. The IFoA thematic review asked for this comparison, or with long term funding targets, but only where either was relevant to the scheme. The way in which P3.4 has been drafted suggests that the three mentioned bases are always relevant and so none can be excluded on materiality or proportionality grounds etc. Illustrating factors on so many different bases in all cases is likely to be confusing to end users and could obstruct decision making as a result. We suggest this wording is updated to say that "relevant bases *may* include…".

- All of P3.6 – P3.9 are new and we are generally supportive of their inclusion. However, we have a concern that compliance with P3.7 that appears to require comparisons with commutation factors determined on three other bases and a rationalisation of assumption differences, will make this part of factor review reports unnecessarily lengthy.

  We also question the relevance of P3.9 as the ability to set a CETV basis using an alternative method to the best estimate approach, was intended so that relatively few schemes that made available transfer values on something better than best estimate could continue with their approach notwithstanding the 2008 amendments to the 1996 Transfer Value Regulations. Again, the way in which you have phrased it seems to require that this is raised with decision-makers even when it is not relevant.

  If you decide to keep P3.9 we suggest your rephrase it so that you directly reference the legislation. That will also mean you do not need to have a definition of "best estimate assumptions" in the Glossary. P3.9 could say something like the following: "Practitioners' communications on CETV factors must ensure that the governing body is made aware that the 2008 Transfer Values Regulations enables an alternative to the best estimate method described in the regulations to be used, subject to certain conditions."

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 don't understand the premise of this question as we cannot see anything in the proposed TAS 300 which addresses this, nor any discussion in the consultation document.

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

   No.

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?**

   Firstly, we support the split out from the current paragraph 18 for incentive exercises and scheme modifications. These are within scheme events unlike bulk transfers. We are happy with the new section 4, which is essentially a recasting of paragraph 18.

   But turning to the new section 5 we have a number of concerns as follows:

Definition of bulk transfer

We think you need to clarify whether section 5 also covers the technical actuarial work undertaken in relation to buy-ins (ie where the trustees of the pension scheme purchase an annuity policy that covers benefits in respect of some or all of the scheme members but the policy is an asset of the scheme and the trustees remain responsible for paying benefits).

It would seem, by virtue of the last sentence in the proposed definition of "bulk transfer", that buy-in work is excluded:

> *"A connected transfer of the benefits of two or more members of the same pension scheme to another pension scheme, insurer or superfund. The bulk transfer may be with or without the consent of the transferring members. The bulk transfer results in cessation of the ceding scheme's liabilities for the transferring members' benefits".*

It is less clear whether it is excluded in the current definition:

> *"A connected transfer of the benefits of two or more members of the same pension scheme or insurer. The transfer may be with or without the consent of the transferring members"*

We think that clarification is necessary because it is usual for a buyout to have been preceded by one or more buy-ins and in such situations, any technical actuarial work undertaken in relation to the buyout element may be very limited and so much of section 5 may not be applicable. For example, at the buyout stage, a discussion on the range of options available for the long-term provision of benefits, as mentioned in P5.5, is unlikely to be relevant as the trustees will have already chosen the insurance route. By contrast, a number of the provisions of section 5 may be relevant for a buy-in, such as a discussion on the range of options available for the long-term provision of benefits.

When clarifying could you also consider the situation where a full buy-in is being proposed (which is likely to lead to a buyout). In such a situation we can see how much of section 5 would be relevant, and arguably such work would be in scope as the technical actuarial work would be "in connection with" the bulk transfer to come.

Layout of section 5

We find the layout confusing, as this section is now seeking to address three very different types of bulk transfer at the same time – namely to other occupational pension schemes (typically under the bulk transfer without consent law), to insurers (in the form of buyout) and to superfunds. And the consultation document, in proposing the various provisions, does not seem to take any account of bulk transfers to other occupational pension schemes. There are also some paragraphs, namely P5.3, P5.4, P5.7 and P5.8, which relate only to bulk transfers to superfunds.

We suggest that you look into further subdividing this section so that each type of bulk transfer is dealt with separately. That would be of great assistance to those called upon to apply TAS 300 to a bulk transfer situation. Under this approach we expect that much of section 5 would not be relevant to bulk transfers to other occupational pension schemes. For example, we can see P5.1 a and b and P5.5 not being relevant. P5.2 and P5.6 might also not be relevant. And, of course, those parts addressed solely at superfund bulk transfers are not applicable.

Currently, most bulk transfer actuarial work relates to buy-ins and buy-outs. It may be best to create a distinct new section that deals with both together (if you decide to bring buy-in work within scope). And for the reasons stated below, we see little need at this stage to reference superfund transfers.

Superfunds

Although this could change, there is limited actuarial work being undertaken for schemes in relation to their possible bulk transfer to superfunds. As you are aware, in relation to the interim regime, there is only one assessed superfund and no transactions have yet completed. Recently that superfund went on record to say that it must do its first deal in 2023 or the superfund concept will die.

Given this, we think it too early to create TAS 300 requirements relating to superfund transfers. We think you should also wait for developments with the statutory regime, which it was announced, on 11 July 2023, is to go ahead. There are also various requirements on what trustees need to obtain from their advisers as part of the interim guidance.

We also don't see the need to create a new section 6 that appears to be addressed to a handful of actuaries who may be called upon to advise a superfund as to its capital adequacy. We suggest that this is best left to the Pensions Regulator.

While the current definition of "superfund" in the Glossary matches that of the Pensions Regulator's DB superfunds guidance, we suggest that, to ensure continued consistency, the Glossary makes reference to the Regulator's guidance instead of repeating it in TAS 300.

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?**

   No.

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

   No.

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

    We are answering this in relation to TAS 300 only.

    We believe that there will be a substantial cost arising under the scheme funding and financing heading unless you revert to the current scope definition.

We largely agree with your assessment under the factors for individual calculations heading, but on the basis that our concerns are addressed.

We disagree with your assessment under the bulk transfers heading, unless section 5 is substantially recast.

We note, in passing, that we are experiencing significant cost burdens as we implement version 2.0 of TAS 100 given the length and complexity of this standard.