

To: The Financial Reporting Council

From: Christopher O'Brien

2 August 2023

### **Consultation on Technical Actuarial Standard 300: Pensions**

I welcome the consultation on TAS 3000 Pensions. I am commenting on just one point, namely the period between reviews of actuarial factors.

When I see reference in P3.1 to a three-year period between reviews, I am concerned that this derives from the current practice of many actuaries, which I feel is unsatisfactory as it does not take account of the constraints on trustees' discretion under trust law.

Trust law requires that trustees' decisions should be made on the basis of up-to-date information and not information that reflects circumstances perhaps as long ago as three years. Hence, as the IFoA said in 2016, commutation factors should be current. Factors would then reflect 'relevant considerations' to use the term applied by lawyers. Factors that reflect conditions say three years ago may well mean using irrelevant considerations, and that can lead to unfairness, both between members retiring at different dates, and between members and employer.

This is subject to the process for using current factors being practical. Some schemes review factors monthly, as is the typical practice for transfer values.

I therefore suggest that P3.1 should read:

"Practitioners reviewing actuarial factors for a governing body or other decision-making entity should review the actuarial factors not less frequently than monthly and must, in any case, review actuarial factors if there is a material change in either the demographic or the financial conditions underlying the assumptions used in deriving the factors."

I am attach an article published in *The Actuary* in May, which sets out the case for change.

I am also attaching a draft of a longer paper on commutation factors. The subject of how frequently factors are reviewed is discussed in sections 3.4, 6.1 and 8 (and 3.1 is a pre-requisite).

Please feel free to get in touch with me if you would like to discuss this.

Best wishes

Chris

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Fellow of the Institute of Actuaries