

FRC Post Implementation Review: Technical Actuarial Standards Call For Feedback

Response on behalf of WTW's GB Retirement Team

QUESTION 1: Please provide your name (note: anonymous responses will not be accepted).

Neil Wharmby

QUESTION 2: Are you responding as an individual or on behalf of an organisation? If the latter, please specify.

I am responding on behalf of the WTW GB Retirement team.

QUESTION 3: Please provide your email address. The responses to this survey are being collected and processed by the Financial Reporting Council (FRC) in order to inform certain aspects of the Actuarial Policy Team's (APT) work. In particular, the data collected through this survey will be used by the FRC's APT for the Technical Actuarial Standards Post Implementation Review. The FRC will process any personal data provided by you in accordance with the General Data Protection Regulation and the Data Protection Act 2018. More information about how we handle the personal data of stakeholders is contained in the privacy notice on the FRC website at <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc>.

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QUESTION 4: Do you request confidentiality of your response? (note: if so, your response will NOT be published to the FRC website as described in paragraphs 1.17 to 1.19)

No.

QUESTION 5: [for users of technical actuarial work] Have the TASs been effective in ensuring the quality and clarity of the actuarial information you receive is reliable for any decisions that you take based on that information?

n/a

TAS 200

QUESTION 6: To what extent has TAS 200 been effective in supporting high quality technical actuarial work in the insurance sector?

QUESTION 7: What aspects of TAS 200 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.

QUESTION 8: To what extent have the Provisions 12 to 23 of TAS 200 been effective in supporting high quality technical actuarial work in the specified areas?

QUESTION 9: Have you observed difficulties with the quality of technical actuarial work in support of pricing frameworks? Would further additional requirements help clarify the FRC's expectations in this area?

QUESTION 10: Are there other areas of insurance-related technical actuarial work, beyond the areas covered in Provisions 12 to 23 of TAS 200, where you would welcome further technical actuarial standards?

QUESTION 11: Does TAS 200 currently give sufficient direction on the nature of professional scepticism, what that involves, and how that should be demonstrated?

QUESTION 12: Do Provisions 16 and 17 of TAS 200 in relation to insurance transformations provide sufficiently clarity in setting out the FRC's expectations of technical actuarial work in this area? Are there further additional requirements which should be considered?

QUESTION 13: What changes should be made to TAS 200 to better reflect the PRA and the FCA's expectations of the Independent Expert's work in a Part VII transfer?

QUESTION 14: How should TAS 200, in particular the provisions in relation to financial statements (Provisions 12 and 13 of TAS 200), be updated to address the challenges in respect of the implementation of IFRS 17?

TAS 300

QUESTION 15: To what extent has TAS 300 been effective in supporting high quality technical actuarial work in the pensions sector?

We believe that high quality technical actuarial work was already being carried out under that standards that pre-dated TAS 300. TAS 300 is consistent with those previous standards and hence has continued to support high quality technical actuarial work in the pensions sector. Note that within our organisation the vast majority of actuarial work is carried out by Members of the IFoA. We have less evidence as to how effective the TASs have been in respect of actuarial work carried out by non-IFoA members.

QUESTION 16: What aspects of TAS 300 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.

In general, TAS 300 has caused relatively few difficulties. However, there are some areas where TAS 300 is somewhat unclear, and/or may, on occasions, add to the workload and client expense at no material enhancement to the client's benefit and to the detriment of a concise and clear (short) advice paper.

For example:

- The language of TAS 300 gives something of a "mixed message" in respect of communications. The introduction notes that departures are permitted from TAS requirements in relation to communications where the departure is "unlikely to have a material effect" on users' decisions. However, the use of the words "shall include/contain" throughout the remainder of the text appears to guide the reader towards mandatory inclusion, even where not material. This can lead to actuaries either spending a disproportionate amount of time considering whether to include or exclude certain information, or feeling obliged to include large appendices of (arguably unnecessary) detail at no real benefit to a client so as to be able to demonstrate TAS 300 compliance. Alternative words here may help make it clearer that the intention is that immaterial information is not required to be included.
- We would support a relaxation of the mandatory requirement to include all of the material specified in the appendix, even after taking account of the ability to only carry out work that is proportionate to the decision, as in some cases it may not add any material benefit to the client. For example, many valuation reports might now show a helpful breakdown of pension scheme members' ages in chart format and in this case, we question whether showing average age figures in addition is then useful to users.

Scope and application

The introductory scope states that "Technical actuarial work is not limited to work undertaken by an actuary" and this leads to questions over the scope of the TASs. The fact that the TASs are not mandatory for non-IFoA members means that there are, in theory, two levels of standards that could apply to actuarial information. This could cause confusion for its users; can the users rely upon work produced under each level in the same way?

Should a current review of the TASs reconsider the mandatory application of the TASs, particularly, for example, for modelling work perhaps carried out by non actuaries on which actuaries might rely in their work?

(This might include the calibration of software to carry out calculations in relation to funding and/or the provision of cashflows to derive liability proxies?)

We note that the role and approach taken by ARGAs may address the above anomalies to some extent.

QUESTION 17: How are recent or anticipated changes in the regulatory framework requirements in relation to scheme financing changing the nature of advice and support provided by practitioners? What changes should be made to TAS 300 to reflect these?

Long Term Funding Targets etc

We don't believe that any changes must be made to TAS 300 in respect of these, as they arguably already fall within scope, but for clarity we would suggest they are formally included in the definition of the Scheme Financing section.

Given that the TASs are largely 'principle based' we do not see any compelling reason to change the principles simply as a result of the changes in regulatory approach (particularly where there is no underlying change in legislation).

However, we do anticipate that clients will, as technical provisions are replaced with or strengthened towards long term funding targets, require clarity around the different assumptions used for both. References to projections of funding levels will need to be clearer, as will the assumptions used to make those projections. Indeed, we would support the introduction of greater detail around the assumption setting for and reporting of projections of funding levels. With schemes becoming more matched and hedged, the detail around member option profits etc could become more material in such projections, compared with investment uncertainty, than previously.

We would also support a proper comparison of run-off options vs settlement options, not necessarily for scheme funding requirements, but more to inform settlement, risk management and generational fairness decision making.

At the moment, there is nothing in the technical standards around modelling and assumption setting in relation to past transactions and whilst this should be actuarial bread and butter, it may be worth a mention to ensure that there are no inconsistencies introduced between assets and liabilities.

Collective Defined Contribution ("CDC") Schemes

Whilst we note that TAS100 is as relevant to actuarial work relating to CDC Schemes as it is for Defined Benefit Schemes, we consider that there is a case for extending TAS 300 to cover certain aspects of CDC work as users are likely to place a high degree of reliance on such work. In particular, we consider that TAS 300 should contain provisions in relation to the following work in relation to CDC schemes:

1. Scheme design modelling work for an employer or other sponsoring organization,
2. Modelling for trustee scheme design viability assessments,
3. Trustee valuation work to determine benefit increases (referring to "benefit adjustment levels and values of new accumulations" rather than "funding levels", adjusting the language to remove reference to prudence, recovery plans and employer covenant etc, and including a new appendix B to cover reporting requirements), and
4. Trustee work in relation to member option factors.

We would suggest that a separate section for CDC should be implemented as soon as possible, with any further changes to TAS 300 awaiting the final regulations and Code of Practice on scheme funding.

QUESTION 18: How has the development in pensions freedoms in recent years impacted on your technical actuarial work for actuarial factors? What changes should be made to TAS 300 to reflect these?

The pensions freedoms that have been introduced since 2014/15 have resulted in an increased take up of some options (particularly transfer values) which in turn has increased the frequency of reviews of some factors by Trustees as well as increasing the spotlight on consistency between factors. However, whilst it may have brought greater interest from our clients, there has been little change in the underlying legal principles governing the setting of member option terms themselves, and thus little change of actuarial principle as a result of these changes alone, even if there has been a change in which options may now be made available or taken up. Therefore we do not believe that any changes are needed to TAS 300 in this regard.

In particular, we do not believe that there should be a change in emphasis from considering commutation factors after each funding valuation to considering them in the course of the valuation process. The balance of powers in the funding valuation may be very different to those around setting factors and it is not clear to us that a Technical Actuarial Standard is the appropriate place to provide commentary on the timing of when users should seek actuarial advice (further detail is set out in our response to Q19 below).

QUESTION 19: Are there other areas of pensions-related technical actuarial work where you would welcome further technical actuarial standards?

Liability Proxy calculations and integrated risk management work

It seems odd for TAS 300 to include many provisions on valuation/measurement/monitoring work whilst the standard is relatively silent in relation to the work involved in putting in place risk mitigations to stabilise the funding levels, whether or not they are to be measured going forward. We would suggest that actuarial calculations in relation to Liability Driven Investment work, including longevity hedging and interest rate and inflation hedging (and including the provision of projected benefit cashflows (and sensitivities) to inform such work) should be covered by TAS 300. In particular, we would suggest that there should be specific provisions relating to the choice of assumptions (introducing an element of independence from negotiated valuation assumptions) and the treatment of member options and discretionary benefits for such work. It should be a requirement that trustees should be clear as to the policy on how any changes in member option terms are to be hedged and/or funded.

Actuarial factors – further comments

We note that the Call for Feedback makes reference to the IFoA's thematic review, but does not explicitly seek comments on this. We have set out a few comments below in case it is useful to the FRC.

There seems to be an underlying presumption that actuarial factors are set by or recommended by the Actuary. In reality, there are often a number of powers in play when reviewing member option terms, most of which are often held by the trustee or the sponsor. We would welcome any redrafting of TAS 300 to reflect these powers better. (For example, the different powers, a non actuarial point, may provide the whole rationale for the differences sought in paragraph 17 (b).) It may be useful to explicitly require actuaries to take account of the legal advice around the powers involved in setting factors, although we suspect that the vast majority already do this, given the historic wording of Pensions TAS.

We do not consider it appropriate for an actuarial standard to prescribe the frequency of review of member option terms, except perhaps when the actuary holds the sole power to set the terms but even then, advising on the implications for changes in market conditions should cover this point in most practical circumstances. This is a legal matter, and one for the party that holds the power, and in some cases, there is no power to initiate such a review.

We see the sense in *considering* potential changes to the commutation terms when setting assumptions for a valuation, but our preference is for that assumption setting process to reflect the powers in relation to those member option terms and how that power might be exercised, not only immediately following or as part of the valuation, but in the longer term future. We would also welcome actuaries being invited to consider, or at least discuss with the client, the generational issues relating to current and future member option term reviews, as part of the review and as part of the valuation.

We have no objection to making statements about the relationship of member option terms with annuity costs or long term funding targets (and or the technical provisions basis) in principle, but, with the use of term dependent assumptions, in either the option or the technical provisions, which might differ for different generations of future option takers, and with many different options that might be considered, we would prefer not to see a requirement for detailed numerical comparison. Advising on member option terms can already be complex from a computational point of view because of the many different benefit structures that can apply in a scheme. A general comment, or illustrations around the main benefit tranche(s) should suffice, in our view.

However, we question whether the relationship with annuity costs or long term funding targets (or even technical provisions) is the most relevant comparison. Annuity costs may be relevant for schemes heading towards buy out, but for those in long term run off, we would prefer a comparison with a best estimate cost, and for comment to be made about how profits/strains from member options may affect the financing in future. We expect that the current wording in TAS 300 paragraph 17 (and 17 (a) in particular) is wide enough to capture this, but we would have no objection if further detail is added.

In any case, we would consider it essential for trustees to understand how member option terms are taken in to account in any interest rate, inflation or longevity hedge arrangements, and advice on liability proxies should be required to cover this issue – see below.

More fundamentally, we believe that the focus should be on what are the right terms given all the relevant points to be considered (including wording of the Rules and the balance of powers in setting them), and the funding then can reflect those terms. At present, we suspect that the funding programme may unnecessarily constrain the choice of member option terms in some cases.

TAS 400

QUESTION 20: To what extent has TAS 400 been effective in supporting high quality technical actuarial work for funeral plans trusts?

QUESTION 21: What aspects of TAS 400 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.

QUESTION 22: What are your views on the timings of the changes to TAS 400 given the timings of the change in authorisation and supervision regimes?

QUESTION 23: Do you think that TAS 400 should create a standard terminology to be used for funeral plan valuation reports?

QUESTION 24: What are your views on whether TAS 400 should apply to technical actuarial work for Burial Societies?

ASORP 1

QUESTION 25: To what extent has ASORP 1 been effective in supporting high quality technical actuarial work in the social security sector?

QUESTION 26: What aspects of ASORP 1 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.

QUESTION 27: Do you consider the definition of work which falls in the scope of application of ASORP 1 is clear? What changes should be made to the definitions set out in ASORP 1 to improve clarity?

QUESTION 28: Have you observed an increased variety of technical actuarial work which falls into the scope of application of ASORP 1, for example since the pandemic? What changes should be made to ASORP 1 to reflect the new types of work and practices?

Other issues

QUESTION 29: What changes should be made to the existing sector specific TASs to reflect these developments?

We consider that TAS 300 should be amended to include reference to

- Advice in connection with CDC schemes (see Q17 above).
- Advice concerning the purchase of and treatment in funding plans of longevity swaps.
- Advice concerning the assumptions chosen for and the modelling adopted for the derivation of a liability proxy (and or other techniques used to inform inflation and interest rate sensitivity).
- Similarly, advice around the projected cashflows used for investment liquidity requirements should also be within the scope of TAS 300.
- Advice in relation to the investment return required over a particular time period to reach a particular funding target. Such advice should consider both the funding target assumptions and also the projection assumptions, such as member option or prudence profits.
- Advice on investment, settlement or risk mitigation options for pension schemes, to the extent that it involves actuarial techniques at its centre, including buy outs, buy ins, longevity swaps, hedging and liability proxies.
- Work in relation to the substitution, departure or reconstruction of participating employers in a scheme, including work relating to scheme apportionment or flexible apportionment arrangements.
- Work in relation to integrated risk management frameworks.

These are perhaps more fundamental than the work required (e.g. valuation work) to measure the success delivered by their purchase or implementation.

Raising awareness of the potential implications of climate change (to the extent appropriate) should be a requirement in relation to all work that falls under TASs. However, on the assumption that this is to be included in TAS 100, it does not need to be included in TAS 300 as well.

QUESTION 30: Would there be greater coherence in the requirements in relation to technical actuarial work in the fields of investment and finance by setting them out in their own standard?

We are not convinced that a separate standard is required.

We are not currently aware of any investment points that require their own standard. However, given the implication of investment matters on all areas of actuarial work, we would anticipate that any general investment points that require mention in the Technical Actuarial Standards would be better placed in TAS 100, and any sector specific investment points would be better placed in the sector specific TASs (TAS 300 etc).

As the Call for Feedback states, there are often demographic elements and specialist benefit design skills involved in considering many 'risk transfer' investments and the decisions around the use of these products are perhaps more material than the decisions taken in considering scheme funding. Once a transaction is complete, it also continues to affect actuarial valuation modelling and assumption setting. We see no reason to separate the advice for these products from other pieces of pension technical actuarial advice and would therefore support their inclusion in TAS 300.



QUESTION 31: Are there any areas where you would welcome further standards; in particular, new areas where an increasing number of actuaries are performing technical actuarial work?

There are no areas within the technical actuarial work that we carry out where we believe that an extra Technical Actuarial Standard is needed.

WTW GB Retirement Team

7 July 2022