

May 2019

Feedback Statement

Actuarial Statement of Recommended Practice 1 (ASORP 1)

Financial Analysis of Social Security Programmes

The FRC's mission is to promote transparency and integrity in business. We are committed to providing the public with accurate and timely information about the activities of the companies we regulate. We will work to ensure that the public has access to the information it needs to make informed decisions about the companies it does business with. We will also work to ensure that the companies we regulate are held accountable for their actions and are treated fairly. We will work to ensure that the public has a voice in the decisions we make and that our decisions are based on the best available information. We will work to ensure that our decisions are transparent and that we provide a clear explanation of the reasons for our decisions. We will work to ensure that our decisions are based on the public interest and that we are held accountable for our actions. We will work to ensure that our decisions are based on the best available information and that we provide a clear explanation of the reasons for our decisions. We will work to ensure that our decisions are based on the public interest and that we are held accountable for our actions.

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- Financial Analysis of Social Security Programmes

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Overview

- 1.1 On 8 November 2018 the FRC issued a consultation paper *Actuarial Statement of Recommended Practice 1* and received a total of four responses to the consultation. The purpose of the consultation was to seek input on the content of the Exposure Draft for ASORP 1. We thank those who responded and list the respondents in Appendix A to this document.
- 1.2 In general, the responses were supportive of the Exposure Draft. The two main issues raised by the responses to the consultation concerned:
 - (a) Scope of ASORP 1: that we had narrowed the scope from the definition in International Standard of Actuarial Practice (ISAP 2 (2017)); and
 - (b) Whether it is right to introduce a new level of actuarial standard that is intermediate between the Technical Actuarial Standards (which consist of high-level principles that are mandatory) and Guidance (which is non-mandatory).

Key Messages

2 Scope of ASORP 1

- 2.1 ISAP 2 has defined a Social Security Programme (SSP) to include all programmes for a wide section of the population and providing benefits primarily on old age, retirement, death, disability, and survivorship. We were concerned that this definition would bring into scope the Pension Protection Fund (PPF) and other compensation schemes.
- 2.2 In the Exposure Draft we limited the scope of a SSP to be where eligibility for benefits depended on the payment (or crediting) of National Insurance Contributions (NICs). We did this by changing the second attribute of the definition of a SSP from “*Benefits are provided to, or on behalf of, individuals*” to “*Benefits are provided to, or on behalf of, individuals, subject to eligibility dependent on sufficient payment or crediting of National Insurance Contributions*”.
- 2.3 Two respondents commented on this narrowing of scope. One response queried whether it was right to exclude any compensation schemes and suggested that consideration be given to whether actuarial work in relation to compensation schemes should be covered by technical actuarial standards. We have explained the rationale for excluding compensation schemes to that respondent who is now comfortable with the intention. We also note that such work is covered by TAS 100. As part of the post-implementation review of the TASs, we will seek to understand what compensation schemes are in existence that would involve technical actuarial work and consider whether they should be subject to a higher standard than TAS 100.
- 2.4 The other response noted that the narrowing of the scope of ISAP 2 would mean that ASORP 1 would have limited effect in practice although they did not comment on whether this was the right thing to do. Our intention was simply to remove PPF and other compensation schemes from scope; it was not to narrow the scope of ISAP 2. Technical actuarial work on SSPs extends to disability and health benefits and that under the proposed amended definition these would be out of scope by virtue of eligibility not being dependent on NICs.
- 2.5 Therefore, we intend to revert to the original ISAP 2 attribute above (i.e. “*Benefits are provided to, or on behalf of, individuals*”) and to clarify explicitly that the exclusion of “financial guarantees” is intended to exclude also the PPF, Financial Services Compensation Scheme (FSCS) and other compensation schemes from the scope of ASORP 1.
- 2.6 This will have the effect of bringing back into scope technical actuarial work undertaken in respect of care and disability social security benefits. It also brings back into scope technical actuarial work in respect of Local Authority funding for care homes as well as technical actuarial work for disability and ill-health benefits in the context of the Scottish Fiscal Commission and for Department for Work and Pensions (DWP) where such work is carried out by a member of the Institute and Faculty of Actuaries (IFoA).
- 2.7 We have considered the amount of work currently undertaken in these additional areas and consider that our original impact assessment remains unchanged.

3 The level of the standard

- 3.1 The FRC’s *Framework for developing Standards, Statements of Practice, Codes and Guidance* sets out the hierarchy of authority and the categories of FRC’s policy

publications. This hierarchy has four levels: Standards, Statements of Practice, Codes and Guidance¹. Standards set mandatory requirements; Statements of Practice relate to the application of Standards and are set on a “comply or explain” basis; Codes consist of principles and associated guidance; Guidance is non-mandatory.

- 3.2 We consider that the rationale for adopting ISAP 2 as a SORP as set out in the consultation remains relevant and appropriate. The level of compliance required and the prescriptive nature of ISAP 2 (2017) mean that a SORP is the most appropriate form of adoption. ISAP 2 (2017) uses “should” statements throughout which are on a “comply or explain” basis rather than a mandatory “must” basis. It also provides illustrative examples as non-mandatory guidance using “may” statements.
- 3.3 We understand that the IFoA in setting its Regulatory Policy has only two levels in its hierarchy of policy publications: Standards (mandatory) and Guidance (non-mandatory). We understand that the IFoA does not wish to introduce another level in its hierarchy as its standards accommodate both mandatory and “comply or explain” requirements.
- 3.4 Therefore, while we understand the perspective of the IFoA, we remain convinced that it is the correct decision to call this standard ASORP 1 (Actuarial Statement of Recommended Practice 1).

4 Valuation Date

- 4.1 One respondent commented that in social security projections it is not always clear what the valuation date is where the main work of the analysis is projecting cash flows which are not discounted.
- 4.2 Paragraph 3.1.3 lists key information to be included in communication. In 3.1.3.b the first date listed is “Valuation date”.
- 4.3 We propose to change this to “Valuation date or, for projections, the effective date of the exercise”.

¹ [Framework For Developing Standards, Statements of Practice, Codes and Guidance](#)

Responses to the Consultation

The questions in the consultation paper are repeated below together with a summary of the points made in the responses.

Q1 Do you agree that a compliance statement should always be required for ASORP1?

- 5.1 Two of the respondents agreed that a compliance statement should be required for all work on SSPs and one respondent did not respond to this question. One respondent considered the requirement to complete a compliance statement to be disproportionate and to present a compliance burden. We do not believe that the respondent is suggesting that the actuary would not comply fully with the standard if there was no requirement to write a compliance statement and so we consider that where the standard applies, and the work is completed in compliance with the standard, recording that compliance is not burdensome.
- 5.2 Therefore, we propose to leave the requirement for a compliance statement within ASORP 1.

Q2 Do you agree with the commencement date of 1 September 2019?

- 5.3 The three respondents to this question agreed with an effective date of 1 September 2019.

Q3 Do you agree with the proposed scope of ASORP1?

- 5.4 ISAP 2 has defined a Social Security Programme (SSP) to include all programmes for a wide section of the population and providing benefits primarily on old age, retirement, death, disability, and survivorship. We were concerned that this definition would bring into scope the PPF and other compensation schemes.
- 5.5 In the Exposure Draft we limited the scope of a SSP to be where eligibility for benefits depended on the payment (or crediting) of National Insurance Contributions (NICs). We did this by changing the second attribute of the definition of a SSP from “*Benefits are provided to, or on behalf of, individuals*” to “*Benefits are provided to, or on behalf of, individuals, subject to eligibility dependent on sufficient payment or crediting of National Insurance Contributions*”.
- 5.6 This question elicited a variety of responses.
- 5.7 One respondent agreed with the scope without further comment. A second respondent expressed concern that the Financial Assistance Scheme (FAS) may be caught unintentionally by virtue of the words “... benefits on retirement which are paid for by taxation.” The basis of the concern (which would also affect the PPF) is that both the PPF and the FAS Scheme are funded by raising a levy and this process might be termed “taxation”.
- 5.8 Two respondents commented on the narrowing of scope. One response queried whether it was right to exclude any compensation schemes and suggested that consideration be given to whether actuarial work in relation to compensation schemes should be covered by technical actuarial standards. We have explained the rationale for excluding compensation schemes to that respondent who is now comfortable with the intention.

We also note that such work is covered by TAS 100. As part of the post-implementation review of the TASs, we will seek to understand what compensation schemes are in existence that would involve technical actuarial work and consider whether they should be subject to a higher standard than TAS 100.

- 5.9 The other respondent noted that the narrowing of the scope of ISAP 2 would mean that ASORP 1 would have limited effect in practice although they did not comment on whether this was the right thing to do. Our intention was simply to remove PPF and other compensation schemes from scope; it was not to narrow the scope of ISAP 2. Technical actuarial work on SSPs extends also to disability and ill-health benefits (whether done by actuaries or not). Under the proposed amended definition these would have been out of scope by virtue of eligibility not being dependent on NICs.
- 5.10 Therefore, we intend to revert to the original ISAP 2 attribute above (i.e. “*Benefits are provided to, or on behalf of, individuals*”) and to clarify explicitly that the exclusion of “financial guarantees” is intended to exclude also the PPF and other compensation schemes from the scope of ASORP 1.
- 5.11 This will have the effect of bringing back into scope technical actuarial work undertaken in respect of care and disability social security benefits. It also brings back into scope technical actuarial work in respect of Local Authority funding for care homes as well as technical actuarial work for disability and ill health benefits in the context of the Scottish Fiscal Commission and for DWP.
- 5.12 One respondent asked us to specify that TAS 300 does not apply to technical actuarial work on SSPs. We confirm that this is the case. TAS 300 is a Specific TAS and the scope is defined explicitly within that document. As technical actuarial work on SSPs is not mentioned there, such work is not within the scope of TAS 300 and there is no need to amend TAS 300 to specify that SSPs are not in the scope of that TAS. Of course, TAS 100 does apply and ASORP 1 builds on TAS 100.

ACTION TAKEN:

We have amended the definition of Social Security Programme to read (addition shown in bold and deletion shown in strikethrough)

Social Security Programme (SSP)

A programme with all the following attributes regardless of how it is financed and administered:

1. Coverage is of a defined segment, or all, of the population, often on a compulsory or automatic basis;
2. Benefits are provided to, or on behalf of, individuals ~~subject to eligibility dependent on sufficient payment or crediting of National Insurance Contributions;~~
3. The programme, including benefits and financing method, is prescribed by law;
4. The programme is not financed through private insurance;
5. Programme benefits are principally payable or delivered upon old age, retirement, death, disability, and survivorship, and the following benefits (if provided) are only ancillary to the principal benefit(s):
 - a. Unemployment benefits;
 - b. Medical expenses;
 - c. Benefits provided due to work-related injuries;
 - d. Work-related death or occupational diseases;
 - e. Short term social assistance benefits (e.g. food stamps);
 - f. Benefits provided for disaster relief (e.g. insurance, or recovery funding, for flood, drought, hurricane/typhoon, earthquake/tsunami); and
 - g. Financial insurance or financial guarantees (e.g. for loans, bank deposits, pension payments, financial securities, insurance payments from insolvent insurers). **For the avoidance of doubt the exclusion of financial guarantees is taken for the purposes of ASORP 1 to mean the exclusion of Pension Protection Fund and other compensation schemes as well as any other financial guarantee schemes."**

Q4 Do you agree with the drafting changes in ASORP1 to ensure consistency with the TASs?

5.13 The two respondents to this question were supportive with one respondent noting without objection that by referring to Communications rather than Reports we include oral communication also. We are not making any change.

Q5 Do you agree with the proposed Glossary terms?

5.14 One of the two respondents to this question noted that the use of the UK specific term "National Insurance Contributions" assumes that "social security programmes in the Crown Dependencies are not covered by the geographic scope of FRC technical actuarial standards." As the definition of UK excludes both the Crown Dependencies and the British Overseas Territories, they are outside the scope of FRC standards.

5.15 The other respondent referred to their comment on scope in Question 3 which we responded to above.

Q6 Do you agree with the proposed changes to ISAP 2 (2017) in adopting it for the UK?

5.16 The two respondents to this question supported the removal of paragraphs 2.5, 2.6 and 3.2 of ISAP 2 (2017).

5.17 It should be noted that our primary reasons for excluding paragraph 2.5 were that the subject matter of this paragraph does not belong in a *technical* actuarial standard or guidance and the respondents agreed with this. Nevertheless, one respondent commented that they “are not aware of any circumstances when it would be inappropriate to share data and calculations ...” while agreeing with the other reasons that we had cited for removing paragraph 2.5 of ISAP 2 (2017).

Q7 Do you agree with the rationale for retaining these requirements in ISAP 2 (2017) in adopting for UK:

- a) reference to both funded and unfunded SSP's
- b) requirement to disclose margins for prudence and their rationale and to explain the difference in results both with and without margins?

5.18 There was agreement to both points a) and b) from the two respondents to this question.

Q8 Do you agree with our impact assessment?

5.19 There was agreement with the impact assessment subject to the caveat that the costs would be higher if the scope were extended.

5.20 One respondent noted that we had stated that “Actuarial work on SSPs in the UK is performed almost exclusively by the Government Actuary’s Department (GAD)” but then queried that our drafting of the impact cost had been targeted at the GAD.

5.21 We considered that, in the past, actuaries have been seconded to DWP and there may be actuarial work undertaken by the Scottish Fiscal Commission in connection with SSP projections.

5.22 The figure that we quoted in the Consultation was £20,000. This was based on estimating GAD costs and then adding in a margin for extra “unknowns” by which we intended to allow for the limited costs outside GAD. Following our reversion to the original ISAP 2 scope in ASORP 1 we have checked with GAD who are content that our estimate of the cost of transition remains appropriate allowing for the original ISAP 2 scope.

Q9 Do you have any other comments on our proposal?

Compliance statement

5.23 One respondent considered the requirement to complete a compliance statement to be disproportionate and to present a compliance burden. We do not believe that the respondent is suggesting that the actuary would not comply fully with the standard if there was no requirement to write a compliance statement. We therefore consider that where the standard applies and the work is completed in compliance with the standard, recording that compliance is not burdensome.

Level of detail in the Communications

5.24 One respondent noted the amount of information to be provided and contrasted this with the approach of the TASs. We accept this comment but consider that this document is a Statement of Practice precisely because it provides more detail than a TAS on a narrow range of actuarial work. We have not added further detail to that already included in ISAP 2 (2017).

Valuation date

- 5.25 One respondent commented that in social security projections it is not always clear what the valuation date is where the main work of the analysis is projecting cash flows which are not discounted. Paragraph 3.1.3 lists key information to be included in communication. In 3.1.3.b the first date listed is “*Valuation date*”. We propose to change this to “*Valuation date or, for projections, the effective date of the exercise*”.

Geographic scope

- 5.26 Two respondents expressed a preference for a single global actuarial standard for work within scope of ISAP 2. We would have been happy for the IFoA to become a SORP setting body authorised by the FRC and to issue a SORP for all work done within this scope. However, as noted earlier, the IFoA does not issue SORPs (only standards and guidance).

Introduction of new type of standard

- 5.27 Another respondent objected to the FRC introducing a new type of standard claiming that this creates an additional layer of complexity. We did debate the nature and nomenclature of the standard at some length before issuing the exposure draft. As noted above, we feel that the nature of the ASORP really is intermediate between the high-level principles of the TASs and the non-mandatory nature of Guidance.
- 5.28 The FRC’s *Framework for developing Standards, Statements of Practice, Codes and Guidance* sets out the hierarchy of authority and the categories of FRC’s policy publications. This hierarchy has four levels: Standards, Statements of Practice, Codes and Guidance². Standards set mandatory requirements; Statements of Practice relate to the application of Standards and are set on a “comply or explain” basis; Codes consist of principles and associated guidance; Guidance is non-mandatory.
- 5.29 We consider that the rationale for adopting ISAP 2 as a SORP as set out in the consultation remains relevant and appropriate. The level of compliance required and the prescriptive nature of ISAP 2 (2017) mean that a SORP is the most appropriate form of adoption. ISAP 2 (2017) uses “should” statements throughout which are on a “comply or explain” basis rather than a mandatory “must” basis. It also provides illustrative examples as non-mandatory guidance using “may” statements.
- 5.30 We have already explained the FRC standards hierarchy allowed for in paragraph 12.2 of the current Framework for FRC Technical Actuarial Standards. We believe that issuing an ASORP is consistent with that hierarchy and does not add complexity.

ACTION TAKEN

We have amended 3.1.3.b to read (change in bold)

- Valuation date **or, for projections, the effective date of the exercise**;
- Report date; and
- Date up to which all relevant information had been taken into consideration, if it differs from the report date.

² [Framework For Developing Standards, Statements of Practice, Codes and Guidance](#)

Summary of Changes

6.1 We have made two changes to the draft exposure as follows:

6.1.1 Section 3.1.3.b has been amended to add the words “or effective date of the exercise” after “Valuation date.”

6.1.2 Attribute 2 in the definition of Social Security Programme in the Glossary has been amended by removing the words “subject to eligibility dependent on sufficient payment or crediting of National Insurance Contributions” and additional text has been added to attribute 5f to clarify that the PPF and other guarantee or compensation schemes are excluded from the scope of ASORP 1.

Next Steps

7.1 ASORP 1 has been published on the FRC website and will be effective on 1 September 2019.

Appendix A - List of respondents to the consultation

Government Actuary's Department (GAD)

Institute and Faculty of Actuaries (IFoA)

Inglis, Robert

Pension Protection Fund (PPF)



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