FRC Consultation: Technical Actuarial Standards for Pensions

Response on behalf of WTW

This response to the FRC's consultation paper in relation to Techncal Actuarial Standards for Pensions dated May 2023 has been prepared by Neil Wharmby, Petrea Simmons and Edd Collins on behalf of the WTW GB Retirement team.

Please direct any queries to Neil Wharmby. We do not request confidentiality of our response.

TAS 300: Pensions

QUESTION 1: *What are your 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?*

Our view is that, in light of the substantive review of TAS 100 which, together with the Actuaries' Code, provides a clear regulatory framework for actuaries to advise their clients, there is no need to expand the existing scope of TAS 300 in relation to scheme funding and financing. In support of this, the FRC is clearly intending that its approach to regulation should leave scope for judgement and be principles based. (Paragraph 2.1 of the Consultation Paper: "The FRC proposes to retain the principles-based approach to TAS 300. The FRC believes that a principles-based approach leaves room for practitioners to apply judgement and proportionality. Feedback received also supported this approach.")

Indeed, prior to the publication of TAS100 v2.0, and the more detailed regulation of actuaries that it requires, we provided the FRC with a list of other topics that could be regarded as deserving some sort of regulatory guidance (see our note of 7 July 2022). The fact that these are excluded from the scope of the revised TAS 300 is an implicit indication that the FRC's view is that there is no need for them to be included. These are, in our view, at least as important as the areas that the expanded version of TAS 300 seeks now to regulate. We agree that, in light of the revised TAS100 v2.0, the need to expand TAS 300 to include the other aspects of technical actuarial work which we previously listed is much reduced or removed. However, this leaves us to question why the FRC now sees a need to expand TAS300 in the selective way it proposes.

More specifically, the present TAS 300 already captures scheme funding work for intended users, including for an employer where there is a contractual or statutory need to agree funding with the Trustee, and this will capture work in relation to triennial valuations which is where the most important decisions will be made. We also have some concerns that the proposed expansion to "scheme funding and financing" could be interpreted so as to extend to work in relation to accounting for pensions in corporate accounts which, in our view, would not be appropriate or necessary.

Scheme funding and financing

QUESTION 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?*

We agree with the proposal to defer any further changes to scheme funding and financing arrangements and would prefer to defer not only past the publication of revised funding regulations and code of practice but also until after ARGA is established (to reduce the risk of revisions being made in short order to TAS 300/310 due to change of regulatory body).

We would also 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. We think that the information need not be defined as material, and thus may be excluded if not material, consistent with the main thrust of paragraph P7.3 of TAS 100 v2.0.

Factors for individual calculations

We have set out below our responses to the FRC's questions relating to the actuarial factor changes, but we had a few general comments as follows:

1. The draft is taking steps away from a principle based standard which, as stated in 2.1 of the consultation document, the FRC is retaining . We would welcome a shorter, purely principle based, standard.

2. This is a technical actuarial standard, whereas some content covers legal matters – might that better reside elsewhere? For example, P3.9 relates to legal provisions; actuaries are not legal experts and providing a steer in relation to options under legislation seems counter to the competence and care provisions of the Actuaries' Code, and the general encouragement of the Institute and Faculty of Actuaries not to provide legal guidance (see for example their Risk Alert relating to GMP equalisation).

3. The standard also appears in some places to attempt to define, interpret, or amend legislation, or to override or unduly restrict the existing powers governing the choice of member option terms. We consider that this is not the role of a technical actuarial standard. Examples include:

    a. P3.1 – although we recognise that the draft only refers to a 'recommendation', there is no legal basis for a recommendation to reflect a three year period, and few if any pension scheme rules would specify the circumstances for a review. In practice, markets are as likely to drive a review as the period since the last review - this aspect is adequately covered by TAS 100 v2.0 in our view – but markets and or time periods are not the only relevant issues affecting decisions on factors; administration issues often have a significant part to play. We would prefer to leave the judgements surrounding the events triggering a review for the decision maker/adviser to cover between them.

b. P3.2 – there is no requirement in law, or in most (if not all) pension scheme rules, to link a factor review with the triennial actuarial valuation.

c. P3.5 – as drafted, this paragraph seems to be implying that the FRC expect a particular outcome from this consideration but it is not stated what that outcome should be. Legislation already requires discount rates for CETVs to have regard to the Scheme's investment strategy, and we do not consider that P3.5 adds anything concrete to this legislative requirement. Indeed, it might actually confuse the issue as derisking often applies to a scheme-wide investment strategy whereas a CETV is specific to a single individual and the aggregate position does not always help define the position for an individual. This guidance is therefore unhelpful and may unduly influence the potential choice of an inappropriate basis.

If these provisions are intended to influence the actions of decision makers, then would it not be better for guidance to be issued to those parties, perhaps by the Pensions Regulator, or set out in legislation?

4. We do recognise that actuaries can have an influential role when advising on factors, and we do agree that there is merit in TAS300 including provisions relating to factors. However, we consider that this should focus on the role of the actuary, perhaps including a requirement (where advice is commissioned) to provide;

   a. a value based reference point, based on assumptions that are fit for purposes and compliant with TAS 100 v2.0, with a statement of the principles on which they have been derived, and

   b. an indication of the financial implications of adopting the principal factors included in the actuary's advice (noting that the client may choose other factors at their own risk), and

   c. pointing out that the value based factors included in the advice are only one of the perhaps many issues that might influence the choice of factors (we did consider whether these issues should form part of an actuarial standard but concluded that this was probably more a legal matter), and

   d. a statement that regard should be had to the powers and provisions of legislation and/or the scheme rules when setting factors.

   As part of such a process, we would consider it appropriate for the actuary to seek input from the user as to other influences on the choice of factor, for example administration considerations, cost constraints (both benefit costs and implementation or operational costs), any intended benefit design preferences, discrimination issues, generational influences, legal updates etc.

5. We would welcome a review of the drafting to ensure that it reflects the advisory role of the actuary – some provisions (for example P3.3b, and to some extent P3.5) of the current draft appear to presume (inappropriately, in our view) that the user (decision maker) will adopt the factors that are put forward within the actuarial advice. In general, we do not consider that the draft adequately reflects the powers as to who determines member option terms in the scheme and the level of discretion that is implicit in those powers.

6. The drafting of the standard should also be reviewed to reflect the potential requirement for consent for member options. For example, if trustee consent is required for the commutation of benefit, then this power can be used to mitigate any future risks associated with continuing inappropriate terms and providing much of the analysis envisaged by the new draft TAS300 would not be useful.

7. We would also welcome, despite the existing guidance relating to proportionality, specific recognition of being able to provide shorter, cut down, advice when decision makers are reviewing only certain factors or certain aspects of factors. This approach can lead to more appropriate outcomes but may be discouraged by a requirement to consider all the aspects labelled in TAS 300 on every such occasion.
8. Finally, we consider that it would be reasonable to expect that the Actuary considers what would constitute their own TAS compliant advice when making determinations in relation to actuarial factors, aswell as other relevant matters, for example, administration issues.

QUESTION 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?*

Our view is that a Technical Actuarial Standard is not the appropriate place to seek to direct the frequency or timing of when users should seek actuarial advice.

Also, we do not believe that the standard should include positive encouragement for reviewing member option terms as part of a valuation process.

First, unlike for valuations, there are usually no prescribed timeframes set out in scheme rules or legislation for the review of member option terms. Second, it would be unusual for a practitioner to hold the power in pension scheme rules to ensure that a review is commissioned. Finally, paragraph 2.12 of the consultation paper implies that members' option terms should 'react to market conditions' and we do not believe that this is a principle that is in every case enshrined in pension scheme rules or law, or should necessarily form the basis of an actuarial factor.

We note the observation in the first sentence of paragraph 2.18 of the consultation paper. However, assuming funding advice is already compliant with TAS 100 v 2.0, we suggest the risk of unintentional constraints is small. There are many unknowns to be taken in to account in a funding valuation and the policies adopted in future by trustees, sponsors and, potentially, actuaries for the setting of terms are not likely to be known at a particular valuation date even if a review were to be carried out in conjunction with a valuation. We would expect a valuation basis to reflect such uncertainties and therefore not unduly constrain the choice of member option terms at any particular review.

Where the valuation basis includes specific allowance for commutatation on set factors 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. Where there is no such valuation assumption, or where consent to members exercising the option may be restricted, we would expect the valuation advice to include appropriate commentary. However, we do not believe it would be essential to tie decisions on such factors with decisions on valuations

Our view is that the funding valuation should aim to fund the future benefits of a pension scheme, including those provided under various options, and should therefore reflect the powers and provisions that influence them. The option terms should not be required to be driven by the negotiated agreements and timeframes that usually form the basis of a funding valuation (not least as linking to a triennial cycle might be counter productive in encouraging terms to reflect prevailing circumstances more quickly) but instead should be determined in accordance with the powers and circumstances applicable to that purpose.

There are also practical and governance related issues with linking a factor review to a valuation. First of all, there are prescribed timescales for a statutory funding valuation and adding further work in to that process can put strain on practitioners' operational processes and also on users' governance processes. Exploring alternative factors for member option terms as part of a valuation process could add to timescales (which might defer the start of important contribution agreements). There may also be scope for some confusion if markets are to change relative to the valuation basis under consideration.

Finally, adding a factor review in to a negotiated triennial valuation process may inadvertently provide e.g. the sponsor with some effective power in relation to the factors when ordinarily it might be the power of the trustee and/or the actuary to set the factors.

We have no objections to the two processes being carried out concurrently at our client's choice.

We have some concerns that linking the review to a triennial valuation may discourage trustees/sponsors/actuaries from reacting appropriately to changing circumstances between valuations. Also, TAS 100 requires consideration of the changing risks over time and we consider that proper advice provided under that standard, (along with the proposed new paragraph P2.9, if that were to be retained, although we would prefer it isn't), should address concerns expressed in the consultation paper around frequency of review, to the extent that the practitioner has the ability to influence this.

On the new paragraph P2.9, we would argue that much, if not all of this, is already covered in the elements of the standards in relation to assumption setting, but if they are to be included again here (albeit our preference is there is no reference to linking factor reviews with triennial actuarial valuations), they need not be constrained to when concurrent processes are not followed – surely these could be relevant for long term funding even if there were a concurrent process to set factors used in the short term? However, it is difficult to see what meaningful comments can be made in respect of the potential impact to satisfy this paragraph without providing material that might obscure other more relevant material.

Also in relation to P2.9, we would welcome a 'materiality' condition as many schemes have some unusual or seldom used factors where it would be disproportionate to comment as required by this paragraph.

We question why the FRC sees the concurrent review as so desirable, particularly as the draft standard is silent on the allowance that it might expect to be made for member option terms once a review has been carried out. Allowances for commutation in valuations can vary – for example a £ amount could be adopted or a percentage of value or a varying set of factors and thus the current, or near term factors in use are not necessarily a direct input to the valuation.

Our preference would be to delete P3.1 b., as we feel the wording is too rigid. Timescales should be flexible and should not prevent or discourage an early or out of cycle review. Importantly, circumstances (market yields, longevity updates) are more likely to influence factors rather than, necessarily, timescales. Further, for some low governance schemes, or rarely used factors (or factors based on a benefit design rather than actuarial value) a full review every three years may be too onerous.

If it is decided to retain reference to a triennial frequency, we believe it would be necessary to allow some pragmatism to allow for trustee board governance processes (ie completing a valuation and then a factor review quickly, followed three years later by a protracted negotiation and more in depth factor review, perhaps combined with the appointment of a new administrator), that might result in a period of greater than 3 years between implemented reviews. Perhaps wording along the lines of 'broadly 3 years' or 'normally within each triennial valuation cycle' would be more appropriate.

In any case, we consider the use of the word 'must' in paragraph P3.1 to be too strong, and we would prefer to see the provisions of the current TAS 300 retained.

QUESTION 4: *Do you consider the proposed changes to Section 3 would enable decision-makers to reach a fully informed view in setting actuarial factors?*

Our view is that, in general, the proposed changes are unlikely to result in a more informed user (and we are uncertain as to what deficiencies in advice the changes are intended to address). In some circumstances it will simply increase drafting effort and prepared lists, for example in setting out the circumstances for review in P3.1 a; most advice will cover this in general terms, but the requirement here will, in our view, simply add a compliance burden.

P3.2 is arguably too strong – for example in the circumstances where member option allowances do not have a material impact on the valuation results.

We consider that it would be beneficial to confirm what the expectations are, if there are any, in relation to the circumstances where the practitioner is the decision maker.

We think that Section 3 is deficient in one aspect. As set out in our preliminary 'point 4' above, for member option terms where there is no requirement for a direct value basis to be adopted but where the actuary is instructed to advise, we do see the value in a standard requiring consideration of a value comparison, but we also consider that the fact that there is no value requirement should be made clear to the user.

In addition, we would like to seethe standard require actuaries to invite the user to consider other relevant issues (e.g. administration issues, sponsor preferences, benefit design issues, the level of current factors and the likely changes in value over time due to yield movements, longevity trends, investment strategy changes etc), as they may be as or more relevant than the value equivalent in setting the terms.

There seems to be an underlying presumption that actuarial factors are effectively set by or as 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 between the bases.) It may be useful to explicitly require actuaries to take account of the powers involved in setting factors and any legal advice around these powers, although we suspect that the vast majority already do this, given the historic wording of Pensions TAS.

The requirement for member option terms to be compared with "all relevant bases" may be too onerous a requirement. Some schemes may have many benefit tranches with many different benefit provisions (e.g. pension increases) and the cross comparison of these with "all" these bases would, when communicated (see P3.7) create confusion as to what would be proportionate. Further, we question whether the relationship with annuity costs or long term funding targets (or even technical provisions) is the most relevant comparison, especially since in some cases the annuity values used in any comparison will either need to be estimated or may be out of date and set by reference to market conditions at a different date. It may also be set on a sex specific basis whilst factors may be unisex. We consider that this provision could add to costs, either in completing the work or in making the judgments about what work is required to achieve proportionate compliance.

Annuity costs may be relevant for schemes heading towards buy out, and comparisons with long term funding costs, or technical provisions, may be problematic – these measures are set for the scheme in aggregate and do not necessarily help define the subset of assumptions built in to these measures that relate to the individual member eligible for the option.

For those schemes 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 current TAS 300 paragraph 17 (and 17 (a) in particular) is wide enough to capture this.

It is not clear in P3.4 whether this is referring to individual annuity costs or bulk annuity costs.

It is also not clear in P3.4 whether the comparison should be made with the factors that the decision maker intends to adopt, or those recommended by the actuary taking all the circumstances he considers relevant in to account. P3.4 is also not specific as to the effective date of the comparison and whether figures on one or other bases need to be updated to reflect demographic or economic changes since the effective date.

Also, we consider that a reference here to long term funding objectives may be confused with a low dependency basis, if and when such a basis is required to be adopted.

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. Unless such work highlights 'outliers' which had previously been overlooked, we see little value here and this level of detail might serve to confuse the user. A general comment, or illustrations around the main benefit tranche(s) should suffice, in our view.

There may be some occasions where a subset of factors need review, for example to reflect a one off benefit change, a shift in market conditions or a legislative change. It would be helpful if the standard could make it clear that, in those circumstances, a 'cut down', limited scope review would be permissible.

Paragraph P 3.3 b might be better drafted so as to recognise the need to reflect benefit levels where legislation requires, for example in setting Cash Equivalent Transfer Values where there is a legislative requirement to at least pay a best estimate value of the benefits given up.

We are not sure what the final sentence in P3.6 is seeking to achieve – the rest of the paragraph addresses the communications to the decision making entity, but we are not sure why the final part of the paragraph considers advice to another party – if they are not the decision making body, there is no decision and there is no user, and the work falls out of scope of the TASs.

Overall, whilst we appreciate the importance of ensuring that the advice can meet the reliability objective, we are concerned that providing all that is stated in the TAS 300 draft could likely obscure the main points that are relevant to the decision, and we fear that practitoners will wrestle with the need to satisfy the line items of TAS 300 whilst also satisfying the TAS 100 P7.3 requirements.

We would note our comments above about the inclusion of P3.9 but, should this paragraph be retained, we would argue that information beyond that specified in the paragraph is included in the communications, including an accompanying statement about the impact of the need to adopt a best estimate CETV in the test to determine whether advice is taken, and awareness where relevant of any provision that requires the agreement of the sponsor to pay more than a best estimate CETV (as envisaged by the regulations governing the CETV). On the whole, we consider that the drafting of the revised actuarial standard does not adequately reflect the need to respect the powers governing the particular option.

However, we would reiterate our view that these are legal matters and arguably are out of place in an actuarial standard. We would support the deletion of P3.9.

QUESTION 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.*

No. We would expect that member option terms should be set in accordance with the requirements of the scheme documentation and/ or legislation as appropriate. The actuarial standard should not aim to specify or imply 'standard' member option terms, as we do not believe that the FRC has the authority to do this.

The draft standard does not in our view respect the powers and legal requirements that govern the choice of member option terms, and confuses the role of the actuarial adviser with that of the decision maker.

We do expect that most practitioners would already consider investment returns (allowing for future derisking, or not, as appropriate) from backing assets in setting option term discount rates, but there is legislation governing this (for Cash Equivalent Transfer Values) and we do not consider it appropriate to attempt to influence the interpretation of that legislation through an actuarial standard. We consider that the provisions of TAS 100 v2.0 already set standards in relation to assumption setting and we do not consider that further material needs including in TAS 300 in this respect. Paragraph P3.5 is therefore either redundant, or unhelpful in that it is not clear what is expected as an outcome from that consideration.

In relation to commutation, the current drafting seems to reflect the statements in the consultation document (e.g. paragraph 2.13) that infer that the starting point should be a market based value equivalence. If that was the intention, we do not understand the rationale for the judgement that that is so. There are many other, perhaps non actuarial, issues that influence the choice of commutation factors and these should be recognised better in the draft. Some of these other influences could render the work required to satisfy the revised TAS 300 as redundant. An example is where the sponsor has a power of veto over a change in terms – why go through all the TAS 300 compliance tasks if the answer at the end will be the same (e.g. "no change") as the answer at the start?

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

We would not wish to see any revision to the standard resulting in an implication or requirement for the adoption of a market based factor, except where specified in legislation. We would however support a provision along the lines that, where an actuary is engaged to advise on factors, a value based factor must be provided, but that this must be put in context of the legislative or rule based requirements and other factors and could simply be derived in accordance with usual TAS 100 assumption setting standards.

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 factor review and as part of the valuation.

Bulk transfers and superfund capital adequacy

QUESTION 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?*

Provisions P5.1 to P5.4 seem to be drafted with, for example, superfunds in mind, yet the definition of 'bulk transfer' would stretch far wider than such transfers, to regular bulk transfers between schemes, including transfers with consent. We would prefer for the provisions to be applicable only to the 'endgame' style bulk transfers and for with consent transfers to be out of scope. Separate provisions around without consent transfers between schemes may be justified but these are likely to need to focus on covenant issues and therefore may not need to be included in a technical actuarial standard.

We would question at what point actuarial work starts to fall under this section. We assume, for example, that the proposed TAS is not intended to cover work in relation to data cleansing, journey planning, setting of long term targets etc? And we would have expected the scope to include work relating to buy ins given that these are essentially the first step towards buy out and are rarely reversed.

Paragraph P5.2 seems unnecessary given (i) the Actuaries' Code requirement in relation to competence and care and seeking input from third parties to ensure the quality of the work, and (ii) TAS 100 requirements in relation to data etc.

Are not P5.8 and P6.2 already covered by TAS 100 expectations (A7.2), (although we note that they are 'musts' in TAS 300 rather than 'shoulds' in TAS 100) and should these include a materiality filter?

QUESTION 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?*

Whilst it is difficult to argue that it would do anything other than mitigate these risks, if those risks exist at present, we would argue that these provisions add little to TAS 100 v2.0, which requires assumptions and models that are fit for purpose, or the Actuaries' Code, which requires the practitioner to act with competence and care.

On balance we would argue that these provisions simply add to the reading material and are unlikely to have a material effect on behaviour for those that are already acting in accordance with TAS 100 and the Actuaries' Code.

(In reality, we would expect that the cases where it is obvious that capital adequacy is sufficient, or the gateway test is clearly met, will be able to rely on more approximate models as the approximations are not material to the decisions whilst the work required for the marginal cases will be disproportionate, leading to adequacy not being able to be demonstrated.)

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

We would welcome the insertion of "material" in to paragraph P5.7 ("…aware of all material risks…").

TAS 310: Collective Money Purchase (CMP) Pensions

QUESTION 10: *Do you have any comments on our intention to have an effective date for TAS 310 of within one year of the first CMP scheme being in operation? Is there an alternative timing that would be more appropriate? Please provide any supporting evidence for alternative timings.*

CMP schemes must follow the design set out in the scheme rules and subsequent valuations will also follow this design. It is therefore important that the schemes' design complies with TAS 310.

We understand that it would not have been practical for TAS 310 to have been in place before any advice was given on the first CMP designs, but it should be brought into effect as soon as possible to ensure new designs can comply.

Given that there are (or are expected to be) limited schemes CMP schemes in operation currently, the relevance of the TAS is also limited in its application and it is preferable that the draft has had sufficient consideration given and amendments made where needed.

QUESTION 11: *Do the proposed provisions provide sufficient clarity of requirements for practitioners to set central estimate assumptions? Please set out any areas of setting CE assumptions you believe require further provisions, including reasons for these.*

The draft TAS introduces a definition of "central estimate" that is not consistent with that in the legislation. Regulation 2 of the OPS (Collective Money Purchase Schemes) Regulations 2022 defines it as "an estimate that is not deliberately either optimistic or pessimistic, does not include any margin for prudence and does not incorporate adjustments to reflect the desired outcome". We suggest the same definition is used by the FRC.

More practically, in order to assess the likelihood of experience being higher or lower than the proposed assumption, it could be interpreted that stochastic modelling should be carried out, which we understand is not the intention.

The wording of P2.2 and P2.3 should be revised to reflect that actuaries will be advising on central estimates (as well as setting them in some instances).

QUESTION 12: *What are your views on the proposed provisions in relation to CMP modelling? Do you expect the proposed requirements on communication to support intended users in making relevant decisions based on modelling? Do you believe there are further items where additional requirements would be appropriate?*

- P3.1: We suggest the wording "complexity of" could be removed. The scheme benefits will need to be reflected in the modelling, but it may be that modelling all complexities is of little additional value.
- P3.2: A stochastic assessment of the probability of the live running tests being failed at some point in the future seems an unnecessarily complicated approach, and there seems little to be gained from this given their reliance on data such as number of new joiners. The live running tests need to be revisited on an annual basis in order for an actuary to continue to provide their viability certificate, and it is not clear how the results of this test would impact trustee decisions once a scheme is operating.

- P3.2: This suggests models should be able to "identify scenarios (including probabilities)" relating to certain events happening. Stochastic modelling may identify scenarios where benefit adjustments can be negative, but these will be difficult to communicate other than in a broad sense. Similarly if undertaking scenario testing, it may be reasonable to come up with a scenario where benefit adjustments are negative, but difficult to place a probability on this scenario. We would suggest this wording be replaced by "identify scenarios in which and estimate the probability that:" to separate out the need for scenario testing and stochastic modelling.

- P3.2: The focus here is on downside scenarios. Upside scenarios are equally likely and also present challenges for the management of CMP schemes. A focus on downside outcomes might bias decision making towards making central estimates which err towards prudence. The TAS should require the actuary to discuss both up and downside scenarios, to put the central estimate advice (and risks of intergeneration unfairness which may be introduced by erring on the side of caution) in a rounded context.

- P3.2 focuses on very specific events – other events may be more appropriate depending on the scheme design (for example, where a scheme sets minimum and maximum annual benefit adjustments). We would suggest that the items set out are examples to consider modelling rather than specific outcomes that must be modelled. In particular, we note that for many designs set up to target increases in line with inflation, there will be many scenarios that lead to negative real increases (broadly 50% of all scenarios), and it may not be perceived to be helpful to consider these in significant detail.

- P3.2: We note that a period over which the probabilities should be assessed is not suggested. We do not think a specific period should be set by TAS 310, but it would be helpful to state that the actuary should select an appropriate period.

- P3.4: We are not sure what this is intended to achieve. Clearly changing the underlying model could result in significantly different modelling results but simply confirming that this is the case (which would appear to satisfy this requirement) would not be of particular benefit.

- P3.5: It is not clear whether this is a requirement to comment on one or two credible alternatives, or the possible range of credible alternatives. The latter seems virtually impossible to satisfy as there would be a huge range of "credible alternative modelling". Even considering one or two alternative models seems disproportionate, given the complex nature of the exercise and it is not likely to be possible to, for example, perform the work on a stochastic model which is fundamentally different to the actuary's company's model. We suggest this could be amended to require simple communication of the fact that different models could produce very different outcomes. Requiring consideration of alternative modelling could also lead to pressure on the actuary to focus on the more optimistic approaches, and in turn this could lead to contentious benefit reductions being deferred and unsustainable expectations being set.

- P3.6: This could be extended to include which variables have not been modelled in a stochastic manner and why.

- P3.10: This partially mirrors the wording in P3.2 and our concerns over that paragraph, as set out above, are similarly mirrored. We note that the "identify scenarios (including probabilities) where" wording flagged above is re-expressed as "explain scenarios where". We suggest this could be expanded to consider both scenario testing and stochastic modelling (if both have been used in the modelling as per P3.2).

- Paragraph 3.18 of the consultation document: This seems to indicate that stochastic modelling might not be required to form a view on soundness, despite the expectation set out in P3.3, that stochastic modelling should be used. We believe the comments in paragraph 3.18 (that an alternative approach can be used provided this satisfied P3.1 and P3.2 and the reliability objective) should be included within the TAS, if that is FRC's intention. However, in principle, we are generally supportive of the use of stochastic modelling for CMP schemes at least during the initial design phase.

QUESTION 13: *What are your views on the proposed provisions in relation to Scheme design? Do you envisage any difficulties in meeting the requirements of these provisions? Please provide details to accompany your response.*

P4.1: We suggest that the use of data which is "as comprehensive as possible" is an unnecessarily high benchmark, suggesting all data conceivably possible to collect would need to be collected. The requirement is particularly onerous given it could be applied to preliminary and therefore approximate assessments of a possible CMP arrangement, where very little may be known about the future membership. We would suggest the use of data that is "appropriate to the advice being given to the extent that this is available".

In addition, we are not sure why these requirements should not also apply to schemes which are in the process of applying for authorisation.

QUESTION 14: *What are your views on the proposed provisions on completing assessments of scheme viability and certifying soundness? Do you consider it is appropriate to require practitioners to consider areas beyond those outlined in legislation when certifying soundness? Please give reasons for your response.*

We agree that it would not be appropriate to define soundness within the TASs, given there is no definition provided in legislation - we would be concerned if the TASs added specific additional requirements to the legislative provisions relating to soundness.

P5.1: We believe it is not reasonable for an actuary to consider "all relevant matters" in their certification assessment. We suggest that this requirement is removed and that the actuary provides their certification on the basis of actuarial matters alone. The actuary could, of course, draw the trustee's attention to non-actuarial matters they believe to be relevant, but we do not think this should form part of their certification.

P5.1: We suggest that the list of factors that must be considered could be repositioned as possible factors.

Whilst intergenerational fairness is an admirable objective, it is undefined and could mean different things to different people (indeed, "fairness" is not well defined and can be considered in contradictory ways depending on which cross-subsidies are accepted within the CMP design) – so introducing a definition post consultation could be contentious. "Any" risks also appears a very broad term to use here.

Any scheme which is set up with the initial intention of providing benefit adjustments in line with price inflation will be expected over time to end up in a position where expected benefit adjustments fall below price inflation – this does not, however, mean that the scheme design is not sound.

P5.3: We note that it may be possible to provide updated advice, taking into account changes in conditions, without necessarily fully updating the stochastic modelling, but nevertheless providing an indication as to how the key modelling outputs (e.g. the central expectation and shape of distribution) would have changed.

P5.4d: We expect that “any running or gateway tests” should refer to “any live running or gateway tests”.

P5.4e: It would be unfeasible to list all the scenarios where the scheme would no longer be sound (there could be many far fetched scenarios included). We suggest that this be amended to read “an overview of the main foreseeable scenarios”.

P5.4f: This requires amendment to cover both downside and upside scenarios which could lead to a scheme become unsound (e.g. scenarios in which very high future pension increases might be required, making the design inappropriate and hence potentially unsound / unviable). This paragraph also needs to be amended to reflect the fact that some material risks may not be quantifiable (e.g. legislative changes that override the scheme rules on benefit determination) so the requirement to determine the “likelihood” may not be achievable. P5.4f could also clarify that a high likelihood of negative real /nominal increases does not necessarily mean the design is not sound.

QUESTION 15: *Do you agree that the considerations for a practitioner certifying scheme soundness via a viability certificate are the same as those a practitioner should communicate to trustees in their own consideration as to whether the design of the scheme is sound for their viability report?*

No. **Indeed, we consider that this is a fundamental point.** For the viability certificate, the actuary is being asked to give a yes/no opinion on whether the scheme design “is sound”, and naturally this opinion should be based on only actuarial matters. Given the nuances around a wider assessment, it is unlikely for it to be feasible for an actuary to sign the certificate if the considerations are wider than this (beyond the limited legal matter that CMP Regulation 11(2)(a) requires to be taken into account, which can be done relatively easily based on advice on that relatively narrow matter from the Trustee’s lawyers).

As part of the Trustee’s considerations of viability, which might cover items such as fitness for purpose, fairness, cost effectiveness and sustainability, they might ask for the actuary to share views on these wider matters as part of a discussion among a wider adviser group (ie including the trustee’s lawyers, investment adviser and perhaps covenant adviser). However, it should not be for the actuary to seek to reach their own conclusions on these wider matters as they can go beyond the actuarial domain. We note that under paragraph 3.2 of the IFoA’s APS P1, when giving a legally-required certification the scheme actuary is required to draw the Trustees’ attention to any matters which they believe the Trustees should bear in mind before taking any action associated with the certification – for the viability certificate this would include relevant matters for the Trustees’ consideration of whether the scheme remains sound, for the purposes of their annual viability report.

QUESTION 16: *Are there any other areas in relation to soundness (including practitioners’ communications of their work on soundness) which require further standards? Please provide as much detail as possible.*

No.

QUESTION 17: *What are your views on the proposed provisions on actuarial valuations for CMP schemes? Are there other key areas of judgement beyond the central estimate assumptions? Are there further areas you would expect to be included? Please give reasons for your response.*

P6.1a: The requirement to compare assumptions with those used in the first gateway test becomes less relevant as time progresses and economic regimes and demographic data and understanding changes. We suggest comparison with the previous valuation basis (or for the first valuation, the gateway test assessment). In this way, there will be documentation on the justification for each change from the principles used for the first gateway test.

P6.1b: It is not clear whether this is a requirement to consider one or two credible alternative sets of assumptions, or the possible range of credible alternatives for each assumption. The latter seems virtually impossible to satisfy as there would be a range of “credible alternative central estimates” for each assumption. The former would not appear to add a great deal of information, to justify the increased costs associated with multiple calculations. This requirement could lead to bias in decision making and therefore intergenerational unfairness. We suggest that these requirements be re-drafted as a requirement to show the sensitivity of the results to changes in the most material assumptions.

P6.1c: CMP valuations will be carried out every 12 months and can take up to 10 months to complete. If the actuary is required to consider allowing for post valuation experience in detail in setting the benefit adjustment this could significantly increase the work required to complete the valuation. The impact of allowance for post valuation experience would be spread over many years through the benefit adjustments – in many cases this is an area which could increase costs without benefit to members.

There may well be circumstances (for example following a significant market crash between the effective date and completion of the valuation) where ignoring allowance for post valuation experience would be inappropriate. Our understanding is that the legislation - in particular Regulation 19(2) - was drafted with this specific point in mind. Allowance for post valuation experience is a trustee decision – which we might expect to be applied in extreme circumstances - and in normal circumstances it would seem reasonable to be ignored. We would propose these requirements are left for individual actuaries to consider using their own judgement and in conjunction with their client without being explicitly included in the TAS.

We suggest the wording of P6.1c in respect of post valuation experience should be reconsidered against this background – perhaps simply requiring commentary on the most significant elements of post valuation experience to the date of the report, without requiring quantification or an assessment of the impact on the benefit adjustment, and noting that this will be reflected in the next valuation. We do not think that the correct test should be whether there has been “material” post valuation experience. “Material” in this sense would be taken to mean impacting on the level of the benefit adjustment – but this could easily vary from day to day so this test would very frequently be met. In our view, the TAS should not require calculations relating to post valuation experience where the trustees might reasonably decide (as may well be the case in a typical valuation year) that they will base the benefit adjustments on conditions at the valuation date, without reflecting post valuation experience.

P6.2a: This raises the problems associated with “credible alternatives” – see our comments on P3.5 and P6.1b above. Paragraph 3.38 of the consultation document explains that FRC “considers it necessary” without confirming exactly what it has in mind (in terms of the potential range or one or two alternative suggestions) or why this might be necessary – or even beneficial, given the additional costs involved and the potential for the actuary to be encouraged to move towards one end of a given range of alternatives, introducing bias, as a result of requiring these additional disclosures.

P6.2b: The requirement to consider a ‘credible alternative’ to the approach adopted for post valuation experience should be removed. We set out above, in our comments on P6.1c, why post valuation experience might only be allowed for in extreme circumstances and should generally be ignored. Given the choice is to allow for post valuation experience or not allow for it, if the trustees have concluded that there is not a compelling reason to allow for post valuation experience, the TAS should not introduce a requirement to consider the alternative approach of making allowance for post valuation experience and assessing what the benefit adjustment would have been had allowance for post valuation experience been made (and incur the costs associated with the additional calculations etc).

QUESTION 18: *Do you agree the required content of the valuation report set out in Appendix A is reasonable for CMP schemes? Is there further content which should be included?*

We suggest that paragraph f could be expanded to provide a quantification of the factors leading to the benefit adjustment being different to last year’s – we consider that the actuary and trustees should review and understand this as part of their work on the valuation, similar to an Analysis of Surplus for a defined benefit scheme.

Paragraph h should be restricted to material risks.

QUESTION 19: *What are your views on the proposed provisions in relation to factors for CMP schemes? Do you envisage any issues complying with provision P7.4 regarding selection risk? Are there certain groups of members you believe this may disadvantage? Please provide reasons for your response.*

P7.2: The statement that factors “should be cost neutral on a central estimate basis” should be qualified by a reference to the scheme rules – perhaps by adding “, where this is consistent with the scheme’s rules”. We also suggest that it is the “principles of cost-neutrality” that should be followed rather than factors being required to be cost-neutral in every possible aspect.

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

Please see our answer to Question 4 above regarding the comparison of commutation factors with many bases.

We believe that some areas of TAS 310 as currently drafted could have different interpretations and give rise to additional costs over those required to comply with the legislation. We have noted these areas throughout this response.

OTHER OBSERVATIONS

In terms of formatting, we note that some terms in Appendix A have not used bold font and may include capital letters (e.g. Scheme Funding assessment, vs **pension scheme funding assessment**).

Futher, the definition of geographic scope shows '**entities**' in bold font yet is not itself a defined term in the TAS 300 glossary (although '**entity**' is defined in TAS 100).

The definition of 'prudence' in the draft TAS 300 (and in the new TAS 100 v2.0) refers to a requirement of the Pensions Regulator for the triennial valuation to be based on prudent assumptions. We consider this to be misleading – it is the funding regulations that require assumptions to be "chosen prudently".

The definition of 'recovery plan' includes the words 'eliminate a deficit' but this isn't wording used in Pensions Act 2004 or the relevant funding regulations. We would prefer "A recovery plan prepared under section 226 of the Pensions Act 2004".

The glossary to the proposed TAS 300 introduces a new definition of superfund. We would prefer to retain a definition in line with that used in future legislation – see for example pages 6, 13 and 14 of

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1168954/consolidation-of-defined-benefit-pension-schemes-response.pdf

WTW GB Retirement Team
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