FRC - Consultation on draft TAS 300: Pensions v2.0 – Exposure Draft

This paper sets out First Actuarial's response to the FRC's consultation on its exposure draft of v2.0 of TAS 300: Pensions.

First Actuarial is an actuarial consultancy providing pension scheme administration, actuarial, investment and consultancy services to a wide range of clients across the UK. Our clients' pension schemes range in size from £0.5 million to nearly £2 billion in assets and cover a number of sectors including manufacturing, financial services, not for profit organisations and those providing services previously in the public sector.

To discuss this response, please contact:

Doug Huggins

Overall approach to the revision of TAS 300

1. What are you views on the proposed changes to the scope of TAS 300? Are there any other areas of pensions work that you consider to be inadequately covered by TAS 300 and should be included?

The changes to the scope are appropriate, and there are no other areas of work that we believe should be included.

Scheme funding and financing

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 that changes should be deferred until there is greater legislative certainty, and do not have any specific concerns that require addressing over a shorter period.

Factors for individual calculations

3. What are your views on the proposed changes to TAS 300 in relation to the frequency of review of the actuarial factors?

What are your views on the proposed changes to TAS 300 in relation to the timing of review of actuarial factors?

We believe P3.1 is worded appropriately, given that it allows for justified exceptions to the expectation of at least three-yearly reviews.

In P3.2, whilst the expectation that practitioners seek to undertake factor reviews alongside funding assessments is only expressed as a ‘should’, we believe that this creates a strong preference for just one possible approach to address the issue that trustees’ ability to change factors may be constrained.

Another option is to not explicitly reference the existing actuarial factors when setting funding assumptions, but instead to make an assumption as to the terms on which options are exercised in the future. This assumption might be of the form “commutation is assumed to take place on terms equivalent to 85% of the value of the pension on the technical provisions / long-term funding basis”. This implicitly allows for increases in factors due to longevity improvements. It also provides a benchmark but not a hard constraint for subsequent factor reviews, which may prompt changes to factors (upwards or downwards) if, for example market conditions change significantly.

Such an approach is consistent with the combined requirements of Principles 3.1, 3.2 and 2.9, but reading 3.2 in isolation might seem to suggest the FRC wouldn’t expect it to be taken unless the rules of the scheme required it.

Finally, we note the publication in April 2023 of *Considerations for actuaries when advising on commutation rates* by the IFoA’s Commutation Rate Research Working Party. This research was a recommendation of the IFoA’s Thematic Review. The Working party was more equivocal, however than either the Thematic Review or the TAS 300 v2.0 exposure draft, in that it set out (in Section 4) pros and cons of reviewing factors *either as part of the valuation process or immediately after a valuation*.

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

Overall, yes.

5. Do you consider that the remit of TAS 300 includes specifying how actuarial factors are set, either in relation to the value for money members should get from cash commutation or in making allowance for future changes to investment strategy in CETV factors? Please explain your rationale.

We do not believe that stipulating in P3.4 (and consequently in P3.7) that relevant bases for comparison of cash commutation factors must always include the cost of purchasing an annuity is appropriate. For open schemes an annuity cost comparison is unlikely to be material to the governing body in setting commutation factors (unless there is a long-term funding objective in place akin to buy-out or self-sufficiency, which would then be a separate relevant comparison anyway).

As drafted, we think this pair of principles (P3.4 and P3.7) conflate the issues the trustees must consider in setting commutation factors with information that it may be appropriate to communicate to members considering exercising pension freedoms.

We also note that in the Commutation Rate Working Party paper, the authors state that *it is hard to see a justification to align scheme terms with annuity rates given likely difference in covenant/ investment strategy of [annuity] provider versus scheme*. Instead, however, they note that in relation to any long-term / low-dependency target, *it is useful for trustees or decision makers to have comparator information on how actual terms compare with terms on this measure*.

In relation to allowing for expected future changes to investment strategy (P3.5 and P3.8), we are not clear how the term 'expected' is to be interpreted here but recognise that in the consultation paper (2.29) the FRC states that it *does not consider it appropriate for principles-based TASs to specify whether potential future changes to investment strategy should be allowed for in setting CETV discount rates*. On this basis we accept the proposed wording in the exposure draft.

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

No.

Bulk transfers and superfund capital adequacy

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?

Subject to our response to Q8 in relation to superfunds, we accept the proposed provisions in section 5, and believe they would ensure that decision-makers were given appropriate information (recognising that practitioners should still apply over-arching materiality and proportionality considerations).

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?

Given the lack of development of the superfund market, and the recent announcement of Government's intention to finally legislate on superfunds, we do not believe that, for the foreseeable future, there are material risks that require mitigation. We invite the FRC to consider whether TAS 100 v2.0 requirements in relation to risk and uncertainty would be adequate pending 'greater legislative certainty' on superfunds, and that some or all of the superfund-related content of the exposure draft should be withdrawn.

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

No.

Impact assessment

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

We agree with your impact assessment (particularly in relation to the infrequency and uncertainty of superfund work).

Other comments

Set out below are a few observations we noted on minor issues with the text of the exposure draft. We don't claim this to be an exhaustive list but trust that it will be of help in finalising v2.0.

Reliability objective (1.1, Glossary)

The definition in TAS 300 v2.0ED 1.1 differs from that in TAS 100 v.2.0 1.3 in that the words in red below are omitted. We note however, that the words in red are also omitted from the version in the Glossary of TAS 100 v2.0, so it may be that the omission from the exposure draft is intentional, and so it is 1.3 of TAS 100 v2.0 that is inconsistent.

To allow the intended user to place a high degree of reliance on actuarial information, practitioners must ensure the actuarial information, including the communication of any inherent uncertainty, is relevant, based on transparent and appropriate assumptions, complete and comprehensible.

Data P1.1

The word 'data' is not emboldened.

Glossary

The term **Scheme Funding assessment** is not defined in the Glossary.

The last two (newly added) definitions are out of alphabetical order.