

The Society of Pension Professionals (SPP) response to the FRC consultation on Technical Actuarial Standard 300: Pensions (December 2024)

1. Executive Summary

- 2.1. **The revisions to TAS 300 have generally been drafted in a way that is sympathetic to the challenges practitioners are facing with the ever-growing responsibilities and complexity of their advice.**
The FIS regulations have introduced a significant number of changes to the funding framework and the FRC appear to have introduced these concepts into the Standards in a concise way.
- 2.2. **Some of the new provisions introduce additional prescription that would best be avoided.**
For example, disclosing the “level of prudence” which runs the risk of actuaries then feeling the need to quantify prudence when justifying it.
- 2.3. **There are also some areas that the SPP believes will add materially to the advice required and are unnecessary in their current form.**
For example, we suggest the proposed provision relating to cashflow (P2.11) is excluded, or changed to say the actuary should consider whether to include this, particularly given the overriding liquidity requirements in the FIS regulations.
- 2.4. **Some of the new provisions would benefit from restructuring.**
For instance, given the material risks associated with advice around uses of surplus and the potential for regulatory change in this area, we suggest this warrants its own section.

3. Consultation response

Question 1: What are your views on the proposed changes to provisions in relation to the level of prudence in assumptions? Should TAS 300 include further requirements in relation to setting or communicating the level of prudence in assumptions? Should TAS 300 include additional provisions relating to the risk of excessively prudent assumptions being used in actuarial valuations? Please give reasons for your response.

- 3.1. Whilst we recognise the phrase ‘*the level of prudence*’ is not new within TASs, we see this terminology as unhelpful as it suggests there is a single, objective calculation whereas in reality there is a significant degree of judgement in the advice. We therefore suggest more generic wording, such as ‘*how prudence is being incorporated within the assumptions and the resulting actuarial information*’.
- 3.2. There is a risk that views on employer covenant may be attributed to the actuary when they are advising on prudence within the assumptions. We therefore suggest that the wording is expanded to make it clear that this is not the case, e.g. for P2.1: “*This must include, where relevant, the trustees’ or employer’s view on the risk relating to the employer covenant.*”
- 3.3. In terms of clause P2.5 more specifically, we believe this is reasonable although in practice the level of prudence is typically a matter for negotiation and the actuary needs to be satisfied that the outcome is appropriate. The wording as it stands implies there may be more of a direct link between covenant and prudence. In some cases, trustees and employers may be comfortable with a solution that is more prudent than necessary given the strength of the employer (e.g. for strategic reasons if targeting buyout). Alternative wording for 2.5c could be “*how the prudence adopted is appropriate given the material risks facing the scheme; including, where relevant, the trustees’ views on the risk relating to employer covenant*”
- 3.4. We do not believe TAS 300 should include any further requirements in relation to setting or communicating the level of prudence in assumptions, otherwise there is a risk that the requirements start to become too prescriptive, and actuaries may feel the need to quantify prudence when justifying it.

3.5. We do not believe it is necessary to include a specific provision addressing the risk of excessive prudence in assumptions. Ultimately the actuary will naturally convey this information when providing other information they are required to report on, such as funding level projections and comparison with the solvency position. That said we would not have an objection to a broadly drafted provision – for example requiring actuaries to consider whether to include commentary around the risks of being overly prudent.

3.6. **Key recommendation 1: Change “the level of prudence” to something more generic as above, expand the wording to avoid the risk of views on covenant being attributed to the actuary and do not include any further requirements in relation to setting or communicating the level of prudence in assumptions.**

Question 2: Do you consider that the removal of part (a) of Provision P2.7 (P2.9 in the exposure draft) would result in information not being provided that would be important to the governing body’s understanding of the material risks in relation to funding and financing? If so, please explain your rationale.

3.7. No, we are happy with these changes.

Question 3 What are your views on the proposed Provisions P2.3 and P2.12? Do you expect there to be any practical challenges to complying with the proposed Provision P2.12?

3.8. We have no concerns with P2.3.

3.9. We believe P2.12 could generate additional work that would not otherwise be required by the FIS regulation. The inclusion of the phrase “*level of*” risks actuaries feeling compelled to quantify the risk, which we do not think would be appropriate in all circumstances and therefore suggest that this is deleted.

3.10. For example, we would not expect this to be required for cases that meet FastTrack, are very well funded and de-risked. We suggest P2.12 is adapted to allow the actuary to apply judgement when deciding the extent to which they communicate on this point.

Question 4: What are your views on the proposed Provisions P2.2 and P2.10? Are there further factors which you believe practitioners should consider or communicate? If you disagree with the proposed requirements, please suggest alternative approaches.

3.11. We have no concerns with P2.2.

3.12. We are comfortable with P2.10 in general, although some members of the SPP were unclear on why this provision referred to the funding and investment objectives, rather than linking to the funding and investment strategy that is defined within the document. Further to this, similar to our response to Question 1, we suggest the provision is amended to make clear that the **actuarial information** has taken into consideration the trustees’ or employers’ view of the strength of the covenant.

3.13. We also note that the definition of **journey plan** is not directly consistent with the FIS regulations, although we understand the reasons for this.

Question 5: What are your views on the proposed Provision P2.11? If you disagree with the proposed provision, or believe there is additional information relating to liquidity that should be communicated, please explain your rationale.

3.14. Similarly, the SPP is concerned with the words “the level of” which suggest a single specific answer. We also suggest that in isolation, knowing that the cashflows are uncertain (even if quantified how uncertain) does little to assist the governing body. For a small scheme, there may be absolute certainty that the cashflows are wrong (as a member will be alive or not each year).

3.15. From a practical perspective the level of detail required to address this provision could get very complicated given that many assumptions are made around aspects that affect the shape of cashflows (on the grounds of prudence), e.g. not allowing for CETVs, cash commutation and PIE. These assumptions can have a material impact on the shape of the cashflows, but limited impact on the funding position of the scheme.

3.16. We therefore suggest this provision is excluded, or changed, to say the actuary should consider whether to include, particularly given the overriding liquidity requirements in the FIS regulations. If this is not acceptable then wording such as: “Practitioners’ communications to the governing body should highlight the uncertainty around future benefit cashflows requirements.” would be more practical.

- 3.17. **Key recommendation 2: The proposed Provision P2.11 should be excluded, or changed, to say the actuary should consider whether to include.**

Question 6: Is there any technical actuarial work undertaken by practitioners in relation to managing a funding and investment strategy which is not adequately covered by the proposed provisions? If so, please explain what this is. If you provide advice in relation to an LPGA, do you anticipate any challenge in applying Provisions P2.2, P2.10 and P2.11 in relation to these arrangements?

- 3.18. We have no comments to add on this.

Question 7: Do you agree with the proposal to remove P2.6 of TAS 300 v2.0 from the standard? If not, please explain your rationale, including the matters which you believe a governing body needs to have communicated to them by actuarial practitioners to support them in fulfilling their statutory duties in relation to funding and financing.

- 3.19. We agree that this can be removed if the final version retains the level of prescription being introduced more widely. However, as noted in several of our responses, our preference is to see less prescription being introduced as far as possible and in which case it may be appropriate to retain P2.6 of TAS 300 v2.0.

Question 8: Do you envisage any challenges arising from the proposed introduction of Provision P2.4? If so, please explain what these are.

- 3.20. The SPP agree that this provision is sensible, particularly in recognition that the actuary is not expected to understand the advice in detail.

- 3.21. However, we aren't clear why there is not a corresponding statement similar to P5.6 whereby the actuary highlights within their communications that they have relied on third party advice (such as covenant or investment advice) or instructions (for example the governing body or employer may simply advise them of conclusions in a particular area).

Question 9: What are your views on the proposed Provision P2.13? Please explain your rationale.

- 3.22. We have no comments on this. The wording of this provision is clear and reasonable.

Question 10: Do you agree that the items listed in Appendix A are material for all schemes? If not, please explain which items may not be material in which circumstances. Do you agree the proposed amendments to items b, d and e in Appendix A? If not, please explain why.

- 3.23. We do not think that item (e) is necessary for all schemes, particularly for schemes that are fully bought in or fully funded on a solvency measure. Our preference would be for there to be a specific carve out for schemes in this situation. However, it is fairly straightforward to comply with the requirement.
- 3.24. We suggest that the second part of this sentence '*a description, where relevant, of how the funding levels on the technical provisions basis and on the low dependency funding basis are expected to converge in future*' is put separately.
- 3.25. Some SPP members also believe that Appendix A should include details on the expense arrangements for the scheme, though we do not believe that this is a material point.

Question 11: Do you agree that the risks associated with technical actuarial work in connection with buy-ins and capital-backed journey plans and other similar arrangements are adequately addressed by TAS 100 and the proposed provisions of TAS 300 as set out in the exposure draft? If not, what risks do you consider not to be adequately addressed and what different or additional provisions do you suggest be included in TAS 300?

- 3.26. We agree that this is adequately addressed by the TASs as they currently stand.

Question 12: Are there any further areas of technical actuarial work in relation to funding and financing which you believe should be addressed in TAS 300? If so, please explain what these are, and the risks involved.

- 3.27. We are not aware of any further areas of technical actuarial work in relation to funding and financing which should be addressed in TAS 300.

Question 13: Do you agree that practitioners should communicate any material increase in risk from providing future accrual of benefits or future accumulation of money purchase benefits without equivalent funding, as set out in Provision P2.9c? If not, please give reasons for your response.

- 3.28. Whilst expenses are covered by the definition of **benefit alterations and other activities** the SPP would recommend that expenses are explicitly referenced within 2.9c as well, otherwise there is a risk it may be missed.
- 3.29. The SPP otherwise agrees with this statement and believes that practitioners should communicate material risks in this relation to these developments that emerge in future.
- 3.30. **Key recommendation 3: Consider referencing expenses in 2.9.**

Question 14: Do you agree with the application of the provisions in Section 4 to technical actuarial work as set out in “benefit alterations and other activities”, beyond incentive exercises and scheme modifications which are already in scope in the current standard?

Does the proposed extension of scope in relation to provisions in Section 4 capture technical actuarial work which you consider should not fall in scope of TAS 300, or where the proposed Provisions in Section 4 are not applicable? If so, please explain what this is.

- 3.31. We believe this is not the right area to incorporate the risks associated with meeting future expenses from scheme assets as part of a valuation project. As per our response to question 13 we suggest covering expenses in that provision, so that Section 4 focuses on aspects outside of normal funding discussions.
- 3.32. In general, given the material risks associated with advice around the uses of surplus and potential for regulatory change in this area, we suggest this warrants its own Section.
- 3.33. However, if being retained in this section, the FRC should make it much clearer by calling the section ‘Benefit alterations, modifications and use of surplus’.
- 3.34. Linked to this, we have concerns regarding the change in definition of ‘scheme modification’ and potential ambiguity in this. The current definition simply says ‘a change to the accrued benefits of a pension scheme’ whereas the new definition is much more vague and potentially open to misinterpretation. We suggest the FRC clarify what is envisaged here (ideally by making the TAS clearer).
- 3.35. In the absence of this clarity, it potentially has a very wide scope including the below, none of which would affect the accrued benefits of a scheme:
- investment strategy advice
 - addition, removal or amendment of a contingent asset
 - changes in statutory employers
- 3.36. **Key recommendation 4: Restructure or reframe Section 4 to improve clarity.**

Question 15: Do you anticipate challenges in judging which of elements a to c in Provision P4.2, as set out in the exposure draft, to apply in any given circumstances?

- 3.37. We have no concerns about this.

Question 16: What are your views on the proposal that the standard would be effective around one month after publication? Please set out any practical difficulties which you believe this might cause. Do you foresee challenges in connection with providing advice before the effective date of TAS 300 v2.1 on valuations with an effective date on or after 22 September 2024? Please set out any proposals for how these may be mitigated. Do you foresee challenges in relation to applying the proposed TAS 300 v2.1 to valuations with an effective date before 22 September 2024 which do not fall under the FIS regulations?

- 3.38. We do not have any concerns with the proposed timeline for publication, particularly as the FIS regulations and the new Funding Code were published a while ago and the current revisions to TAS 300 for the most part do not present any surprises or material additions to work relative to what practitioners are already preparing for.

- 3.39. There are some changes to TAS300 that do not relate to the FIS regulations/new Funding Code. We believe these changes could prove a challenge to schemes looking to complete valuations that are not in scope of the FIS regulations because of their effective date.
- 3.40. Ideally, when advising on schemes subject to the old Funding Code, actuaries should only have to comply with the existing version of TAS300. However, if the FRC doesn't want to take this approach then we suggest including a statement making it clear that, for valuations where the FIS regulations do not apply, then the practitioner can take comfort if they are satisfied it complies with TAS 300 v2.0.
- 3.41. **Key recommendation 5: When advising on schemes subject to the old Funding Code, actuaries should only have to comply with the existing version of TAS300.**

Question 17: Do you agree with our impact assessment? Please give reasons for your response.

- 3.42. We have no specific comments on this but note that codifying 'good practice' inevitably leads to costs for many and focusing on the number of additional provisions, rather than the additional work that these may require, is a misleading approach to determining their impact.

4. About The Society of Pension Professionals

- 4.1. SPP is the representative body for a wide range of providers of advice and services to pension schemes, trustees and employers. Our work harnesses the expertise of our membership, striving for a positive impact on pension scheme members, the pensions industry and its stakeholders.
- 4.2. The breadth of our members is a unique strength for the SPP and includes actuaries, lawyers, professional trustees, DC consultants, investment managers, providers, administrators, covenant assessors, and other pension specialists, delivering a wide range of services.
- 4.3. We were founded in 1958, as the Society of Pension Consultants, bringing together professionals to positively influence pension policy, support the development of legislation and provide members with access to technical information and insight into key industry policy debates.
- 4.4. In 2014, we renamed as The Society of Pension Professionals, broadening the range of professionals engaged in membership.

5. Further information

- 5.1. For more information about this consultation response please contact SPP Head of Public Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.
- 5.2. To find out more about the SPP please visit the SPP web site: <https://the-spp.co.uk/>
- 5.3. Connect with us on LinkedIn at: <https://www.linkedin.com/company/the-society-of-pension-professionals/>
- 5.4. Follow us on X (Twitter) at: <https://twitter.com/thespp1>

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