

ITS response to the Pensions Regulator consultation on *Good practice when choosing assumptions for Defined Benefit pension schemes with special focus on mortality*

General comments:

- Welcome the focus on the mortality issue. It is important, and has been, to an extent, neglected;
- Guidance and regulation needs to be proportionate;
- Mortality is a volatile issue and guidance needs to reflect that;
- There is a danger of taking an overcautious approach and in so doing "regulating" a prudent approach by default;
- There is potential for regulatory overlap between the Pensions Regulator (tPR), Financial Services Authority (FSA) and Board for Actuarial Standards (BAS).

Responses to specific consultation questions:

Q1: Do you agree that we should issue guidance on this subject?

We believe it is right to raise process issues as an ongoing concern, but would prefer to see a co-ordinated approach by all regulators/industry bodies with an interest in this area.

Q2: Have we identified the appropriate principles to apply when choosing prudent funding assumptions?

The Department of Work & Pensions (DWP) has been at pains **not** to define "prudent" in both Scheme Specific Funding Regulations and in its consultation on cash equivalent transfer value (CETV) regulations. Para 1.9 of the draft guidance defines prudence in this context as:

"a margin on the cautious side of best estimate"

We welcome the Regulator giving a steer on his definition of prudence in the Mortality context, but would like to see a definite statement that the regulator recognises that there is no single definition of prudence applicable in all circumstances.

Para 1.11: Seems reasonable, and is likely to fit with existing and developing practice.

Q3: Have we identified the appropriate matters for trustees to consider with their actuary?

In our view this section 1.15 to 1.24 provides sound guidance to trustees on the process and matters to consider with the help of the actuary. Providing trustees with tools to challenge and understand actuarial advice relating to the circumstances of their scheme rather than directing them to a pre-determined outcome.

Q4: Have you any other suggestions for the effective illustration of the impact of mortality choices?

Para 1.25: Fits with the previous section and illustrates what is generally good practice amongst actuaries.

Para 1.26: We are not sure that this paragraph sits well in a "Statement of Principles". We question the value of "the reader" being enabled to accurately reproduce the relevant mortality rates for valuation purposes. It is difficult to foresee any but the largest schemes deriving any benefit from such an exercise. We also question why, having paid for expensive professional advice, trustees would want to do the work again themselves.

Q5: Are we right to discourage allowance for the effect of a factor by way of adjustment to another assumption?

Yes.

Para 1.27: This is a difficult area. We would prefer to see this paragraph withdrawn. In our view it touches areas beyond the scope of guidance. We can see where there might be regulator concern but feel that as drafted it strikes the wrong note.

Q6: Are we right to encourage the adoption of CMIs recommended notation for describing mortality assumptions?

Para 1.28: This appears to be a matter for tPR and BAS to resolve rather than placing a requirement on trustees.

Q7: Is this background material helpful?

There is some helpful material in the background material, but care needs to be taken in how it is presented. An example is Para 1.56;

"The Turner Report recommended that illustrations of life expectancy should follow the year of birth (cohort) approach, and the Regulator agrees."

It is clear that Regulator supports the Turner view and as such trustees might well feel compelled to follow the guidance whatever the circumstances because it is so strongly put.

Q8: Do you agree that a focus on mortality assumptions is appropriate?

Yes. It is an important issue that trustees should consider in all of the circumstances of their scheme.

Q9: Do you agree that our proposal offers the best way for the regulator to identify mortality improvement risks?

We believe that guidance is an effective way of alerting trustees to important issues affecting their schemes. However given the need for expert advice on this issue we

would prefer to see a co-ordinated approach by all Regulators/industry bodies with an interest.

Q10: If your answer to Q9 is 'No', what other approach would you prefer and why?

We believe the approach in Para 1.15 to 1.24 and 1.25 provides the basis for guidance on the approach that trustees should take in relation to mortality issues affecting their schemes.

We believe the guidance needs to be better focussed and more concise. We believe the guidance on "Inducements to Transfer" offers a model for this type of guidance is clear, concise and asks that trustees consider issues rather than saying what trustees should do which is very much the tone of the draft guidance.

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