Institute and Faculty of Actuaries

Thematic Review Report

Corporate pensions: actuarial advice given to pension scheme sponsors on funding and strategy

by David Gordon

www.actuaries.org.uk

April 2023

Contents

Foreword

Neil Buckley, Lay Chair of the IFoA Regulatory Board

I welcome the publication of the Actuarial Monitoring Scheme's (AMS) latest report, *Corporate pensions: actuarial advice given to pension scheme sponsors on funding and strategy.* This continues the regulatory work of the Institute and Faculty of Actuaries (IFoA) in independently reviewing key areas of work in which actuaries have significant involvement and influence. I would like to thank all those IFoA members and organisations that took part.

The Regulatory Board was pleased to receive this helpful and informative report, and welcomes the finding that, in general, actuarial work was of good quality with sound levels of compliance with standards. Advice in this field can cover a range of diverse topics and is provided in different ways, depending on the client relationship and level of pension knowledge. In light of the review findings and conclusions, we will consider whether to make changes to IFoA standards and guidance and explore how the issues raised can be addressed through IFoA career-long learning and professionalism resources. Finally, we will discuss with fellow regulators and other stakeholders whether any action outside the IFoA's remit is warranted.

The AMS aims to promote ongoing high-quality actuarial work in the public interest. The report highlights areas where actuaries can further improve how advice is delivered to clients, and showcases approaches already being adopted by our members in this field. The Board encourages all corporate pensions actuaries to reflect on the review findings to further enhance their work for clients and ensure alignment to existing standards.

Neil Buckley
Lay Chair of the IFoA Regulatory Board

April 2023

Introduction

David Gordon, IFoA Senior Review Actuary

I am delighted to launch this sixth AMS report which covers corporate pensions advice.

I would like to thank those actuaries from 15 organisations who agreed to take part in this review, which included scrutiny of 48 examples of advice and in-depth conversations with some of the actuaries involved.

Our key findings and conclusions are set out in the **Executive Summary**. The report also contains a high-level summary of the advice we reviewed and case studies showcasing examples of good practice. There is a wide range of advice given in this area, both in terms of subject matter and style. However, we found actuaries followed the principles of the actuarial standards in their work without treating them as a compliance exercise.

Although the subject of this review is corporate advice to sponsors, our findings that actuaries are not always clear in articulating their clients' objectives and the underlying risks, or in putting their name to advice, may be relevant to other areas of actuarial work.

I look forward to discussing this report and its findings with regulators and other stakeholders with an interest in corporate pensions advice.

David A Gordon
Senior Review Actuary

April 2023

Executive summary

These headline findings and conclusions aim to help improve the quality of advice given by actuaries to the sponsors of UK defined benefit (DB) pension schemes:

Overall standard of advice

The overall standard of the examples we reviewed was good. We found evidence to suggest consistently sound levels of compliance with relevant standards and guidance.

Articulating the sponsor's funding objectives

We found that actuaries do not always articulate the sponsor's objectives in their advice on funding. This is associated with advice that simply sets out reasons to challenge a range of assumptions being put forward by the scheme actuary to the trustees to reduce the sponsor's contribution requirements.

Many actuaries, particularly those advising on strategy, made clear at the outset their understanding of the sponsor's objectives, or that the aim of advice itself was to help the sponsor define their objectives.

Explaining risks and uncertainties

We found that actuaries do not always fully explain risks and uncertainties, particularly where the advice is recommending that sponsors agree a less prudent funding approach to that put forward by the scheme actuary. This is relevant to the requirements under principle 5.5 of **TAS 100**.[1] Very few examples had a specific section covering this, which may be considered best practice.

Taking responsibility for advice

We found that this type of actuarial advice does not always contain the author's name. In a quarter of submissions to us, the name of the actuary who prepared the advice was not contained in the advice itself.

The Actuaries' Code (the Code)[2] requires members to 'show clearly that they take responsibility for their work when communicating with users'. In follow-up discussions we found that in cases where the actuary's name was not stated, they took responsibility for their work in other ways.

Documentation of data and assumptions

We found that actuaries are not always clear about the source of liability information quoted or the assumptions used. In some cases, the information will have been taken directly from reports provided by the scheme actuary to the trustees; in others, it will have been derived by the corporate actuary. It is not always apparent who has derived the figures contained in advice. In addition, the assumptions used for some valuation measures were not always stated. These are also relevant to the requirements of TAS 100.

Evolving market

The UK DB pensions world is changing rapidly with the upcoming DB funding code and the continued emergence of alternative scheme run-off options (such as Master Trusts and Superfunds) for trustees and sponsors to navigate, alongside dealing with the economic and demographic uncertainties of the post-pandemic world. This means increased challenges and complexities for actuaries providing advice in this domain.

Key conclusions

The overall standard of the examples we reviewed was good. There are, however, examples where advice could be improved, both to enhance the deliverable to the client and to demonstrate that existing actuarial standards and guidance are being met more clearly.

This report aims to help actuaries to develop their advice in this area, focusing on the key themes from our findings and the best-practice examples we observed. This report also provides important context for the IFoA and other regulators in considering regulatory actions to further support members providing corporate advice.

1 | **Financial Reporting Council (FRC): TAS 100: Principles for technical actuarial work (2016)**

2 | **The Actuaries' Code is the ethical code of conduct to which all members of the IFoA must adhere (2019)**

Report structure

How this report should be read

We have set out in this report the detailed results of our thematic review. The **Executive Summary** sets out our key findings and conclusions; a full list can be found on **page 19**.

Findings

The main output of this review is a series of findings based on the examples of actuarial work submitted and on conversations with the actuaries who prepared the work. Each of the findings is based on what we observed across a number of the examples reviewed, or heard during several conversations.

Good practice examples

During this review we observed instances of what may be considered good practice. Each good practice example is based on one or more of the examples of advice we reviewed. Note that the appropriate wording will depend on the specific context so the same wording may not be appropriate in all scenarios. There will be other ways of conveying a particular point.

References and abbreviations

Referenced documents or webpages are indicated by footnotes on the relevant page. A full list of documents is set out in **Appendix 3**. Although abbreviations are defined when they first appear in this report, a full list is set out in **Appendix 4**.

Terminology

The following terminology is used throughout:

- The **corporate actuary** or simply the **actuary** – adviser or advisers to the sponsor or sponsors. The use of the word 'corporate' refers to the sponsor, even though it may be a voluntary, public or other non-corporate organisation.

  There may also be multiple sponsoring employers to the pension scheme. Similarly, the advice under review may have been prepared by more than one actuary. For succinctness, we have referred throughout this report to the author or authors of the advice under review as the 'corporate actuary' or 'actuary'.
- **Pension scheme** – the pension scheme that is subject to the examples we reviewed. Some advice may have referred to more than one pension scheme sponsored by the same sponsor. The pension scheme may also be a 'plan' or a 'trust'.
- **Trustees** – this refers collectively to the individually appointed trustees; the sole corporate or individual trustee responsible for the pension scheme.
- **Scheme actuary** – appointed actuary to the trustees.
- **Trustees' approach** – approach advocated by the trustees, whether put forward directly or via the scheme actuary.

Note on TAS compliance

A number of our findings reference particular provisions of TAS 100 or **TAS 300.**[3] For example, '**Finding 6**: Actuaries do not always fully explain to the sponsor the risks and uncertainties associated with following their advice [TAS 100: 5.5]'.

This type of finding indicates that we did not find evidence that actuaries had taken all the steps that might be expected to meet the requirements of a particular TAS provision, and is based on the review of the examples submitted to us.

There may be other 'component communications' that were not provided to us that contained further relevant information. The actuary may also take the view as noted in TAS 100 that the work required to provide the information 'is not proportionate to the nature, scale and complexity of the decision or assignment … and the benefit that the [sponsor] would be expected to obtain from the work', or that the information is 'unlikely to have a material effect on the decisions of the [sponsor]'. Finally, the corporate actuary may be influenced by advice already provided by the scheme actuary (and shared with the sponsor) containing such information, and consider it unnecessary to replicate it (in light of the proportionality and materiality considerations above).

3 | FRC: **TAS 300: Pensions (2016)**

The nature of this review is such that we did not have the evidence to test these points fully in relation to all submissions; moreover, the purpose was not to determine whether or not a particular example complied with TAS requirements.

This review predates the recent publication of **version 2**[4] of TAS 100, which comes into effect from 1 July 2023. All references in this report are to version 1.

Status of report

This report has been prepared by the IFoA Review Team and is issued by the Regulatory Board of the IFoA. Its purpose is to report on findings of the thematic review on the advice of actuaries to the sponsors of UK DB pension schemes.

This report imposes no obligation upon members over and above those embodied in the Actuaries' Code or **the IFoA Standards Framework**, which includes compliance with the TASs set by the FRC. It is intended to be helpful to the IFoA and other regulators when considering developments in regulation. It is also intended to assist corporate actuaries in their work.

This report does not constitute legal advice. While care has been taken to ensure that it is accurate, up to date and useful, the IFoA does not accept any legal liability in relation to its content.

Review of this report

The report has been subject to review by a member of the IFoA Pensions Board who did not otherwise take part in the review. This is considered by the author to meet the Work Review requirements of **APS X2**.[6]

We wish to thank the reviewer for their comments, although the contents of this report, in particular the findings and conclusions, remain the responsibility of the IFoA Review Team.

Conflicts of interest

We are not aware of any conflicts of interest arising from the contents of this report in relation to the IFoA Review Team that carried out the work or the Regulatory Board that has commissioned the review work.

Questions about this report

We welcome questions about this report which should be sent to **reviews@actuaries.org.uk** or to:

Actuarial Monitoring Scheme
Institute and Faculty of Actuaries
Level 2, Exchange Crescent
7 Conference Square
Edinburgh EH3 8RA

4 | FRC: **TAS 100: General Actuarial Standards, Version 2.0 (2023)**

5 | **Standard Setting at the IFoA (2020)**

6 | **APS X2: Review of Actuarial Work (2015)**

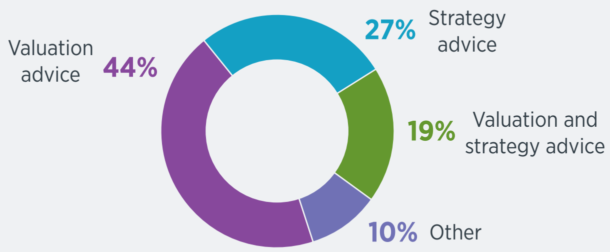
Funding

Nature of the corporate advice given on funding

We saw a range of different types of advice in this review. The box gives some statistics about the nature and subject matter of the advice submitted to us.

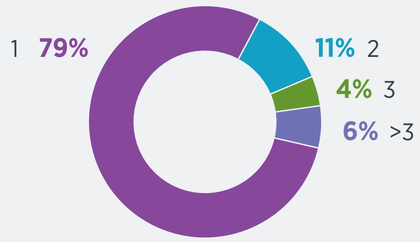
Type of advice

We received 48 submissions from 15 organisations for this review. The subject matter of the advice (as described by the organisations themselves) is set out in the first pie chart:



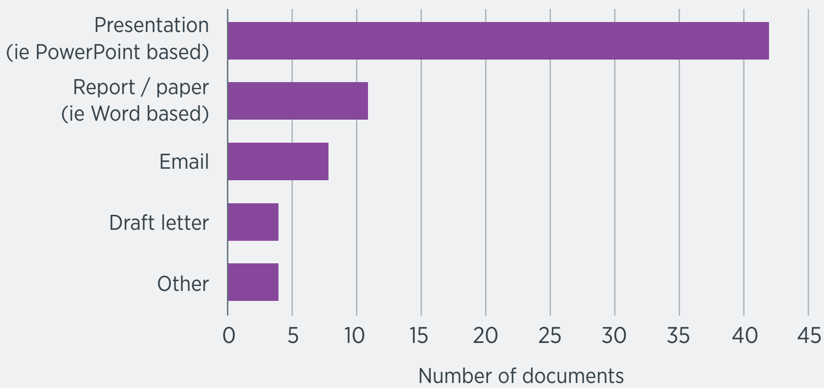
Number of documents submitted

The number of documents submitted in relation to each example ranged from one to six. The distribution is shown in the pie chart:



Format of documents

The type of document submitted is shown in the bar chart:



See **Appendix 1** for more information on the way we carried out this review and the submissions we received.

On funding, the advice ranged from introductory presentations before the valuation date to a commentary on the trustees' approach or a summary of discussions between the corporate and scheme actuaries. The format also varied, from relatively short emails to lengthy reports. We also saw a small number of draft responses prepared by the corporate actuary for the sponsor to send to the trustees.

Regardless of format, the style was either 'reactive' or 'proactive'. In reactive advice, the corporate actuary was being asked to comment on the trustees' proposed approach; proactive advice was commentary to the sponsor anticipating the trustees' approach, or commenting on the long-term strategy and objectives that might be pursued by the sponsor in relation to the pension scheme.

In some cases, the corporate actuary provided background education materials to enable the sponsor to understand the UK pensions regime and potential implications of emerging regulation. They also sometimes provided commentary on the possibility of The Pensions Regulator (TPR) challenging the valuation outcome, and the implications of TPR's involvement.

Finding 1

There is a wide range of types of advice given by corporate actuaries on funding and strategy.

Nature of funding advice

The majority of cases we reviewed relating to funding consisted of reactive advice: the corporate actuary was providing a commentary on the trustees' approach to assist the sponsor in formulating a response. We heard from organisations that the style of the advice depends on a range of factors, including the nature of the trustees' approach and the sponsor's preferences, as well as the fees budget. Consequently, the advice did not tend to follow organisational templates, although we heard that it may draw upon precedents of advice given in other similar situations. In some organisations, actuaries also referred to materials developed by internal subject matter experts, for example on investment or covenant.

Finding 2

Actuaries do not generally follow templates in their corporate funding advice.

We did not see the corporate actuary independently derive all material assumptions from first principles; instead, the advice focused on areas where the trustees' approach might be challenged.

The actuary preparing bespoke advice will nevertheless need to ensure that TAS compliance is achieved. In terms of TAS 300, the corporate actuary rarely set out a full derivation of each assumption. In such cases, the actuary may not consider all the provisions of TAS 300 relating to 'Scheme funding and financing' to be relevant; instead, we saw advice referencing only a subset of the provisions. In discussions with actuaries, we heard that TAS 300 focuses more naturally on the way advice is provided by the scheme actuary rather than the corporate actuary.

Finding 3

Corporate actuaries often provide funding advice that is a commentary on the trustees' approach. This means that assumptions are usually not derived from first principles.

Areas of focus

The purpose of this thematic review is to look at the way that actuaries comply with standards and guidance in their work rather than to provide an analysis of the technical content of the material under review. However, we provide some brief notes on this below.

In the advice that we reviewed relating to funding, the corporate actuary advised on different areas of the valuation that needed to be agreed. The following table shows the major areas of focus:

Area of valuation – in order of prominence/importance
Discount rate
Recovery plan
Long-term objective
Investments
Longevity
Inflation
Buy-in / out

This table is based on a qualitative analysis of review submissions of the relative weight given to each area of the valuation, in terms of prominence and importance. This should be seen against the background that most of the advice we reviewed related to valuations with effective dates in 2020 and 2021.

- In nearly half the examples we reviewed, the discount rate was the main focus of the advice, with the corporate actuary typically advocating a higher rate than the trustees' approach. This is not surprising, since small percentage changes to the discount rate typically have a material impact on the valuation result and there is a wide range of views on future investment returns.

- The recovery plan was the main or second most prominent aspect of the valuation discussed in over 80% of submissions. Again, this is not surprising, since the sponsor will be particularly interested in the levels of contribution that are to be agreed.
- Discussion of a long-term objective was next on the list. Although the **legal requirement**[7] to establish an objective has not yet come into effect, most corporate funding advice covered this to some extent. In some cases, the agreement to establish a long-term objective was given by the sponsor in return for lower contributions than originally requested by the trustees.
- Coverage of longevity and inflation, which are typically key assumptions, was perhaps less prominent for this round of valuations as the principles had been established previously and neither the scheme nor the corporate actuary was proposing changes. However, we did see educational material explaining the impact of Covid on mortality rates, and the **UK government's proposals**[8] on future changes to the calculation of RPI inflation (which is used by many pension schemes as a base for pension increases).

Finding 4

The most common areas of focus in the funding advice submitted were discount rates, recovery plans and long-term objectives.

Sponsor objectives

We saw many examples where the scope was a broad instruction to 'review the trustees' proposals and assist in responding to them' without further qualification around the sponsor's overall objectives for the valuation. This is the type of reactive advice described above. In some cases, the advice was then simply a commentary on areas where the valuation could be less prudent than the trustees' original proposal.

This contrasts with examples we saw that articulated the actuary's understanding of the sponsor's objectives and where there tended to be wider discussions on the valuation beyond simply advocating a less prudent approach. These examples also sometimes challenged the sponsor's objectives or approach.

In discussions with actuaries, they were all able to articulate their clients' objectives. Actuaries who include the objectives within the advice are able to link their recommendations to the objectives or provide a commentary on how they may be met. It may also be helpful for actuaries and users, when looking back, to be reminded of the sponsor's objectives in the advice itself.

This is also linked to the Code amplification 2.3 for actuaries to 'ensure their work is appropriate to the needs and, where applicable, instructions of users'.

Good practice examples

1. We understand that your objective for the 20XX valuation was to achieve a positive outcome for all stakeholders which:
   - Led to cash contributions that balanced the needs of all stakeholders
   - Maintained the agreed investment de-risking approach
   - Reduced the risk of the company overpaying contributions.

   We also understand you had a desire to limit contributions net of tax paid to the scheme over the next five years to no more than assumed in the existing business plan.
2. Following our recent discussions, we understand that your initial view, which you are discussing with colleagues, is that you are keen to ensure that the triennial valuation is signed on time, and are therefore willing to minimise the amount of negotiation by putting a starting offer on the table in terms of the deficit and recovery plan that is largely palatable to the trustees.
3. As your adviser, we will work with you to achieve your objectives; therefore, it is very important for you to let us know what is important. As the valuation is a negotiation, where many factors can be considered and changed, there is a large range of potential outcomes depending on how the Company responds to the trustees. In agreeing to the valuation, the Company is signing up to a methodology that will be used as a baseline for upcoming valuations. This tends to be a one-way street, in that once a certain level of prudence has been agreed on, it is unlikely to be unravelled. Hence, we urge caution in signing up to a method now that could potentially restrict flexibility in future. We have therefore framed our advice on this basis.

7 | **Pension Schemes Act 2021**

8 | **HM Treasury: A consultation on the Reform to Retail Prices Index (RPI) Methodology (2020)**

Finding 5

Actuaries do not always articulate the sponsor's objectives in their advice on funding.

Explanation of risks and uncertainties

Linked to the previous finding on making objectives clearer, corporate actuaries did not always fully explain to the sponsor the risks and uncertainties associated with following their advice and adopting a less prudent funding approach.

If there is a defined objective, the actuary could assess a particular proposal against that objective, but also set out the risks of the proposed approach. If there is no such objective, then the actuary could make general statements about heightened risks associated with pursuing a less prudent approach. A best-practice approach would be to have a separate section setting out the risks and uncertainties – we saw this in a handful of cases.

Good practice examples

1 Factors to take into account when determining the level of investment risk are summarised below:

Maintain or take more risk	Reduce risk
Can the Company afford downside risk? Can the Company provide additional security to the Scheme? Can the Company increase planned cash contributions? Will TPR consider your approach acceptable?	What does it mean for the recovery period with lower investment returns?

2 The Scheme exposes the Company to a number of risks. As a balance of cost scheme, any adverse experience (for example, poor investment returns) could result in additional contributions being required from the Company. In order to fully remove the risks now, the Company would need to meet the solvency shortfall (estimated by XXX to be £YY million at DATE).

It is important to note that risks could improve the position as well as cause a deterioration.

One way of illustrating the Company's exposure to risk is to show the impact of changing the assumptions used to value the Scheme's liabilities:

[Sensitivity analysis]

Another way of illustrating the Company's potential risk exposure is to consider the potential for the Scheme's funding position to deviate from expectations over a particular time period.

[Value at Risk analysis]

This analysis suggests that over a three-year period, there is a 5% chance that the Scheme's funding position could improve or worsen by around £XX million (relative to expectations).

There is a balance between sustainability, costs and risks. A low-risk approach would help provide certainty, but at a higher headline cost that may not be sustainable for the Company. On the other hand, a higher-risk approach may mean the contributions are most sustainable as long as there are no adverse events. The Company should consider what is acceptable risk in the short, medium and longer terms. This can then be compared against the Company's affordability level to consider whether the position is sustainable.

Finding 6

Actuaries do not always fully explain to the sponsor the risks and uncertainties associated with following their advice [TAS 100: 5.5].

Use of email in corporate advice

A small number of the examples submitted consisted of, or included, advice provided by email. Some emails were relatively brief or high level; however, over half appeared to be the entire advice, running to several pages. The corporate actuary and the sponsor will have preferred working styles. However, TAS 100 and 300 apply to emails just as they do for reports and presentations, if they relate to in-scope work. Although it is possible within an email, the advantage of a report or presentation is that it enables complex information to be conveyed more clearly. For example, a report or presentation may more naturally include an initial executive summary, or appendices containing important information, including that required to evidence TAS compliance.

We found that that the content of emails did not differ qualitatively to other formats of advice. However, the proportion of individual emails reviewed with TAS compliance statements was lower than other formats. We note, however, that emails, as component communications under the TAS framework, often make up only part of the overall communication for a particular assignment, which may contain a compliance statement elsewhere.

Finding 7

Where the advice was given by email, it was less likely to include a compliance statement than other advice formats [TAS 100].

Acceptable bounds of advice

Before conducting this thematic review, we had heard anecdotes about the delivery of corporate funding advice, including the potential imbalance of power between sponsor and trustee, or between corporate and scheme actuaries, which may have affected valuation outcomes. We found very little evidence of such situations in our review. We heard further anecdotes during our conversations with participants but not directly related to the examples submitted for review.

We saw a small number of examples where the actuary observed that the trustees' approach to a specific assumption was weaker (that is, would produce a lower liability) than the corporate actuary would themselves have advocated. In one example, this related to an inflation risk premium, and in another, a parameter in the longevity improvements model. The actuary could have noted that the combined impact of adopting this relatively weak assumption alongside another assumption that was relatively prudent was broadly to cancel one another out. In each case, however, the corporate actuary went on to suggest challenging the relatively prudent assumption without acknowledging that they considered the other assumption to be relatively weak – this could be seen as 'cherry picking'.

Finding 8

In a small number of examples, the corporate actuary appeared to be 'cherry picking' assumptions to challenge in terms of prudence where there were other assumptions that were not as prudent.

Other types of advice

Strategy and other advice

In addition to funding, we reviewed a range of other corporate actuarial advice. Most such examples could be described under the heading ‘strategy’, which itself covered a range of topics including:

- Discussion of the medium to long-term objectives for the pension scheme
- Consideration of a formal long-term funding objective
- Potential for future buy-in or buy-out of some or all of the scheme’s liabilities, and/or
- Potential liability management exercises.

Some of the advice was described by the authors as being both valuation and strategy – this typically covered one or more of the above subjects in addition to consideration of the trustees’ approach to the current actuarial valuation. The findings in this section primarily relate to strategy examples (or the strategy aspects of ‘valuation and strategy’ examples).

Solvency assumptions

As with other aspects of the TASs, there was good evidence to demonstrate compliance in relation to assumptions for strategy work. Actuaries set out clearly most of the assumptions being used, or cross-referenced to other materials.

The exception to this was that the actuary did not always state the assumptions used in estimating solvency or annuity buy-out figures. Many examples of strategy advice discussed the future progression to the pension scheme being fully funded on a solvency basis (that is, to be in a position to have sufficient assets to buy-in or buy-out some or all of the pension scheme liabilities by purchasing annuities from an insurance company). The price of insurance policies depends on the supply and demand for such products and varies in line with market conditions. Many organisations obtain indicative pricing information from insurance providers to help with solvency estimates. In a number of examples, however, the solvency liabilities were stated with a comment that they had been derived in line with current insurer pricing but without stating the actual assumptions used. In some cases, the actuary may have had to ‘back-solve’ the assumptions from indicative pricing information. Stating such assumptions, even if they have been estimated, can also be helpful to enable a comparison to be made with other actuarial bases, for example the long-term objective, or over different dates.

Finding 9

Actuaries did not always state the assumptions used in solvency calculations [TAS 100: 3.3].

Projections

A number of the submissions contained medium to long-term projections of pension scheme funding levels on one or more bases for 10 years or longer. These projections can be helpful to the sponsor to understand how the pension scheme finances may evolve in future years. Projections may be on a deterministic basis, where specific assumptions are made of future events, for example investment returns and inflation, or a stochastic basis, where a range of outcomes is shown based on a probability distribution of future investment returns and other economic parameters. Either way, the corporate actuary is required to communicate models and assumptions and the associated uncertainties in the projections.

In a few of the examples we reviewed, we saw some projections over many years without comments about the inherent uncertainty in the results. These projections may be extremely sensitive to the assumptions used and may not turn out in practice. Further, the uncertainty is likely to increase as the projection period increases. Other examples commented about risks, provided sensitivities, or described different scenarios of what could happen.

Finding 10

Actuaries providing long-term projections do not always describe the inherent uncertainties in such information [TAS 100: 5.5(a)].

Extracts from tracker software

We saw corporate advice containing screen shots of the outputs from the organisation's proprietary software. These were used for illustrating the progression of pension scheme funding levels to a more recent date than the valuation date, and/or for projecting forward funding levels to future dates. Actuaries may find it useful to use proprietary software to illustrate these calculations as they may be more robust and more efficient to prepare than, for example, bespoke spreadsheets. However, there will be a degree of standardisation in the illustrated outputs. In some of the examples we reviewed, we found that charts used different terminology to the accompanying text with no explanation. This may make the charts, which are often already complex, harder for sponsors to follow.

Finding 11

Actuaries showing screenshots from proprietary software do not always ensure that consistent terminology is used in the accompanying text.

In addition, software outputs did not always include comments on the appropriateness of the tracking and the associated uncertainties.

Good practice example

The accuracy of this type of funding update calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant, particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller schemes). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

Finding 12

Advice showing the output from funding level tracking software did not always set out uncertainties in the information [TAS 100: 5.5(a)].

Liability driven investment (LDI)

This review did not seek to consider the advice given to sponsors in relation to liability driven investment (or LDI). The submission period for this review closed on 3 September 2022 and the advice submitted was originally given up to two years earlier. The advice did not therefore cover the **UK gilts crisis**[9] of late September 2022 following the UK government's mini budget.

Other types of advice

We also reviewed a small number of examples of corporate advice covering other areas, including M&A advice, pension scheme governance, and the impact of high inflation. Given the small number of examples submitted, there are no findings specific to these types of advice. As with all other examples submitted to us, we provided written feedback to each author on their submission.

9 | **TPR Statement: Managing investment and liquidity risk in the current economic climate (2022)**

Compliance

TAS and Code compliance

We considered the relevant provisions of TAS 100, TAS 300 and the Actuaries' Code, and are pleased to report good evidence to suggest compliance, particularly with the Code. The majority of examples covered most of the provisions of the TASs and the Code. The exceptions to this are highlighted in this report and reflect where we saw practices across a number of examples.

Finding 13

The overall standard of advice was good. We found evidence to suggest consistently sound levels of compliance with relevant standards and guidance.

We have already highlighted a number of areas in funding and strategy where there was not always evidence to demonstrate compliance, for example explaining risks and uncertainties, and stating assumptions for solvency valuations. The findings in this section relate to all the types of advice we reviewed.

Taking responsibility for work

In a quarter of submissions to us, the name of the actuary who prepared the advice was not contained in the advice itself. Submissions from one third of the organisations taking part in the review contained at least one example where no name was present. The Code requires members to 'show clearly that they take responsibility for their work when communicating with users'.

The **Guidance**[10] to the Code expands on this: 'It is essential to the trust in which the profession is held that there is clear accountability for any work carried out by Members. It would not be appropriate therefore for communications to users to be presented anonymously, especially where they are likely to influence or be relied upon by the user.'

We followed up with organisations to ask how actuaries took responsibility for their work in cases where their name had not been included in the advice itself. The most common method cited was that the material had been emailed by the author directly to the recipient, typically shortly before a meeting to discuss the material. Consequently, the identity of the author was obvious to the client.

In such cases, there is a risk that the report becomes detached from the original email so that the author can no longer be identified, particularly at a later date. Also, if more than one individual is taking responsibility, then that may not be obvious if the report is simply attached to an email.

Finally, it is worth noting that all material submitted to our previous thematic reviews contained the name (or names) of the author(s) so this finding may be a feature of corporate advice.

Note, in some cases we had evidence that the author's name had been redacted from material before it had been submitted, as the name had been replaced by a placeholder. In cases where there was neither a name nor a placeholder, we followed up with the organisation to confirm whether the name had simply been redacted with no placeholder or had not been present originally. The above figures relate to cases where the organisation confirmed that no name had been present on the original advice.

Finding 14

Actuaries often did not include their names in this type of actuarial advice. Amplification 6.2 of the Code requires actuaries to 'show clearly that they take responsibility for their work'.

Documentation of data

The source of the liability information quoted, or whether it had been derived by the corporate or the scheme actuary, was not always clear in the examples we reviewed.

In most examples, the corporate actuary was using advice that the scheme actuary had previously given to the trustees as input to their own advice. To reduce duplication, the corporate actuary does not always re-run the valuation but instead refers to information, in particular valuation results and sensitivities, that has already been derived and quoted by the scheme actuary.

10 | Actuaries' Code Guidance on taking responsibility for your work (2019)

Good practice example

Source of each figure clearly shown:

£ millions	Technical provisions	Potential technical provisions	Updated technical provisions
Assets	100	100	94
Liabilities	110	105	104
Surplus / (deficit)	(10)	(5)	(10)
Source	*Scheme actuary*	*Corporate actuary*	*Assets: investment managers; Liabilities: Scheme actuary's tracker software*

In advocating alternative assumptions, the corporate actuary may quote the appropriate figure, if it has already been calculated by the scheme actuary, or they may derive the associated impact, potentially using a more approximate approach. However, it was not always clear whether a particular figure had been derived by the corporate or the scheme actuary. It is important that the sponsor is aware of the source for each figure so that they can place the appropriate level of reliance on it.

In the best examples we saw, all figures were labelled so that it was apparent who had derived them.

Finding 15

It is not always apparent whether the corporate or the scheme actuary has derived each liability figure contained in advice.

Compliance statements

Compliance statements were included in almost all the advice we reviewed.

Under TAS 100, compliance statements are required for communications 'in the scope of a specific TAS [for example TAS 300] and technical actuarial work which is central to a significant decision by the user'. Under the TAS framework, 'Communications' are the set of all 'component communications', which are the individual reports, letters, emails etc that make up the overall communication for a particular assignment. The compliance statement may therefore only be present in certain documents.

TAS 300 applies to advice 'for an employer concerning a Scheme Funding assessment for which there is a statutory or contractual requirement for the governing body to reach agreement or consult on the matter with the employer'. In our view, TAS 300 applied to most advice we reviewed on funding.

Almost all the advice we reviewed relating to funding contained compliance statements covering both TAS 100 and TAS 300, as these two standards clearly applied.

There were isolated cases where there was no compliance statement for work relating to scheme funding, in particular at the planning stage for the valuation process.

As discussed above, there was a broader range of advice on strategy – some of it was given in conjunction with a valuation, while some also included material on incentive exercises, which is also within the scope of TAS 300. Consequently, we saw TAS 100 and 300 compliance statements for most examples of strategy advice.

Some of the work relating to strategy, but neither funding nor incentive exercises, nevertheless included a compliance statement relating to both TAS 100 and 300, where it was perhaps only necessary to include TAS 100.

This finding does not cover emails, which are discussed in the **previous section**.

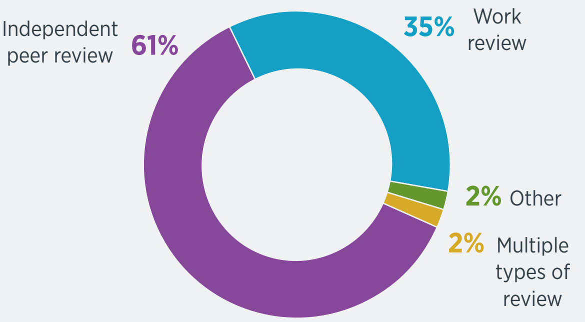
Finding 16

Actuaries mostly used appropriate compliance statements.

Review of actuarial work

As part of the submission process, we asked how the work had been reviewed, as required by APS X2 Review of Actuarial Work. As can be seen in the pie chart, over 60% of examples were subject to 'independent peer review' and 35% 'work review', as defined in APS X2.

Type of APS X2 review



During the interview process, we also asked actuaries how their work had been reviewed and whether the reviewer had raised any issues during their review. In a number of cases, we heard that reviewers had discussed with the corporate actuary the rationale for advocating a particular assumption. In some cases, we also heard that the corporate actuary had retained evidence of the review, in line with organisational procedures.

Only one example of advice contained an APS X2 compliance statement. This is consistent with the previous pensions review where we did not see any compliance statements, which are not required under APS X2 but may nevertheless be useful to users. It contrasts with submissions to the **funeral trust thematic review**,[11] however, where most examples included such a statement.

Good practice example

This report has been peer reviewed by an actuary of suitable experience, also employed by [Organisation], prior to issue, in accordance with APS X2: Review of Actuarial Work.

Conflicts of interest

As part of the submission process, we asked about potential conflicts of interest, particularly in relation to the provision of corporate and scheme actuary work by the same organisation. We also asked about conflicts more generally in discussions with actuaries.

In 86% of examples the corporate and scheme actuaries worked at different organisations. In those cases where they worked at the same firm, we were told that a conflicts management plan was in place, in line with **APS P1**.[12]

Regardless of whether the scheme actuary worked at the same firm, we heard about 'offline' conversations being held between actuaries aimed at resolving technical matters efficiently, always with the agreement of their respective clients.

We were informed that some organisations have a general approach to work for either the sponsor or the trustees in funding negotiations, but not both. We heard that other organisations do work with both parties, with appropriate procedures in place around influence and confidentiality.

We were made aware of an isolated situation where one of the corporate actuary's regular client contacts was a trustee. In that situation, to reduce the risk of conflicts the actuary directed advice to other colleagues at the sponsor so that the trustee did not have sight of the advice.

Finding 17

Corporate actuaries took appropriate steps to avoid potential conflicts of interest in relation to the trustees.

We asked about other conflicts of interest during conversations with actuaries. We were told about situations where the corporate actuary was navigating potential differing interests between the UK company sponsoring the pension scheme and the parent company based overseas. This included different attitudes to risk and levels of understanding of the UK scheme funding regime.

Finding 18

We found examples where the corporate actuary observed potential conflicts of interest between a UK pension scheme sponsor and the overseas parent company.

11 | **IFoA: Thematic Review Report: Funeral Plan Trusts (2022)**

12 | **IFoA: APS P1: Duties and responsibilities of members undertaking work in relation to pension schemes (2022)**

Business environment

Economic, demographic and regulatory uncertainties

Most of the actuarial advice we reviewed related to valuations in 2020 and 2021. **Appendix 2** summarises the main legislative requirements applying at that time.

As noted **above** the principal focus of funding valuations was on the appropriate discount rate, the recovery plan and establishing a long-term funding target.

Since issuing the call for submissions for this review, the backdrop to discussions on funding and strategy has evolved, with further issues arising, for example:

- Higher interest rates and inflation
- Improved funding levels
- Emerging trends in mortality rates following the Covid pandemic
- Changes to LDI arrangements following the 2022 gilts crisis
- TPR's latest consultation on the revised funding code
- Continued emergence of alternative run-off options such as Master Trusts and Superfunds
- Consideration of Environmental, Social and Governance (ESG) factors.

These issues will continue to be considered by both trustees and sponsors, and corporate actuaries will continue to have a role to play in these important discussions.

Finding 19

The UK DB pensions world is changing rapidly with the upcoming DB funding code, and the continued emergence of alternative scheme run-off options (such as Master Trusts and Superfunds) for trustees and sponsors to navigate, alongside dealing with the economic and demographic uncertainties of the post-pandemic world. This means increased challenges and complexities for actuaries providing advice in this domain.

Findings

A full list of our findings is given in the table below

Findings

These are set out in the order they have appeared in this report.

The asterisked findings also appear in the Executive Summary.

No	Finding
1	There is a wide range of types of advice given by corporate actuaries on funding and strategy.
2	Actuaries do not generally follow templates in their corporate funding advice.
3	Corporate actuaries provide funding advice that is a commentary on the trustees' approach. This means that assumptions are usually not derived from first principles.
4	The most common areas of focus in the funding advice submitted were discount rates, recovery plans and long-term objectives.
5	Actuaries do not always articulate the sponsor's objectives in their advice on funding.
6*	Actuaries do not always fully explain to the sponsor the risks and uncertainties associated with following their advice [TAS 100: 5.5].
7	Where the advice was given by email, it was less likely to include a compliance statement than other advice formats [TAS 100].
8	In a small number of examples, the corporate actuary appeared to be 'cherry picking' assumptions to challenge in terms of prudence where there were other assumptions that were not as prudent.
9	Actuaries did not always state the assumptions used in solvency calculations [TAS 100: 3.3].
10	Actuaries providing long-term projections do not always describe the inherent uncertainties in such information [TAS 100: 5.5(a)].
11	Actuaries showing screenshots from proprietary software do not always ensure that consistent terminology is used in the accompanying text.
12	Advice showing the output from funding level tracking software did not always set out uncertainties in the information [TAS 100: 5.5(a)].
13*	The overall standard of advice was good. We found evidence to suggest consistently sound levels of compliance with relevant standards and guidance.

No	Finding
14*	Actuaries often did not include their names in this type of actuarial advice. Amplification 6.2 of the Code requires actuaries to 'show clearly that they take responsibility for their work when communicating with users'.
15	It is not always apparent whether the corporate or the scheme actuary has derived each liability figure contained in advice.
16	Actuaries mostly used appropriate compliance statements.
17	Corporate actuaries took appropriate steps to avoid potential conflicts of interest in relation to the trustees.
18	We found examples where the corporate actuary observed potential conflicts of interest between a UK pension scheme sponsor and the overseas parent company.
19*	The UK DB pensions world is changing rapidly with the upcoming DB funding code, and the continued emergence of alternative scheme run-off options (such as Master Trusts and Superfunds) for trustees and sponsors to navigate, alongside dealing with the economic and demographic uncertainties of the post-pandemic world. This means increased challenges and complexities for actuaries providing advice in this domain.

Appendix 1 – Scope and approach

How we carried out this review

We launched this review in June 2022 with the following scope:

Corporate pensions advice

Advice given to sponsors (as opposed to trustees) in reaching an agreement on actuarial valuations and other strategic advice.

Actuarial advice to sponsors is critical to the financing of UK DB pension schemes, which affects the long-term security of member benefits. Advice to sponsors may also affect the benefits payable to members.

The range of advice in this area is potentially wider than the advice given to trustees and may involve other professionals. The review will look at current practices adopted by actuaries in scheme funding and strategy (including settlement options). It will also cover the treatment of potential conflicts of interest.

Following initial engagement with organisations, the scope was narrower than originally announced in December 2020 when plan design had also been included. We are planning to carry out a separate thematic review in this area in 2024.

The **IFoA website**[13] provides more information on the work of the AMS.

Submissions

We invited all organisations employing actuaries providing advice to the sponsors of UK DB pension schemes to take part in **this review**.[14] We asked organisations to submit appropriately anonymised examples of funding and/or strategic advice, which led to material changes being considered/agreed/adopted.

We asked for up to six examples of actuarial advice, depending on the organisation's corporate pensions client portfolio.

Participation level

A total of 15 organisations took part in the review, submitting 48 examples of actuarial advice. The organisations are listed below:

- Atkin Trustees
- Axis Actuarial
- Barnett Waddingham
- Buck
- Capita
- Deloitte
- First Actuarial
- Hymans Robertson
- Isio
- LCP
- Mercer
- PWC
- Quantum
- WTW
- XPS

We believe this represents a large proportion of the actuaries who are active in this area of actuarial advice.

The IFoA Review Team wishes to thank all the individuals and organisations that contributed to this thematic review.

13 | **IFoA Actuarial Monitoring Scheme**

14 | **IFoA corporate pensions thematic review launch (2022)**

Review methodology

The first phase involved reviewing the content of each example of advice received. We looked at the way the advice was presented, the terminology used, and the assumptions discussed. We also tested each report against the relevant provisions of the Code and APS X2, TAS 100 and TAS 300 (if relevant).

In the second phase of the review, we conducted a series of individual discussions with a subset of the actuaries who had prepared the advice. The purpose of these discussions was to understand their overall approach to this type of advice and to understand how their respective clients (the pension scheme sponsors) had received the advice.

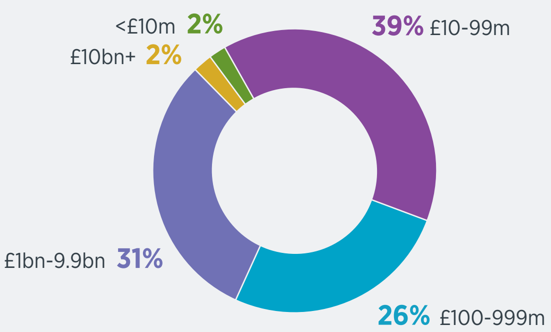
We provided individual feedback in relation to each of the examples we received, drawing attention to areas of good practice or areas where we recommended improvements could be made, and listing any TAS and/or Code provisions that may not have been fully met.

About the examples

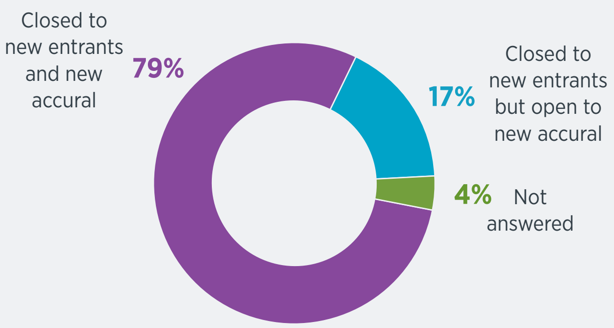
Where organisations submitted more than one example, we asked for the examples to be distinct, for example in terms of the nature of the advice and size/status of scheme. We reviewed 48 examples: we believe this demonstrated a good range. The charts below show the features of the schemes covered by the examples we received. Although our review was not designed to be statistically representative, it appears from the pie charts below that we obtained a reasonable range across a wide variety of scheme types.

About the scheme

Scheme size: assets



Scheme status

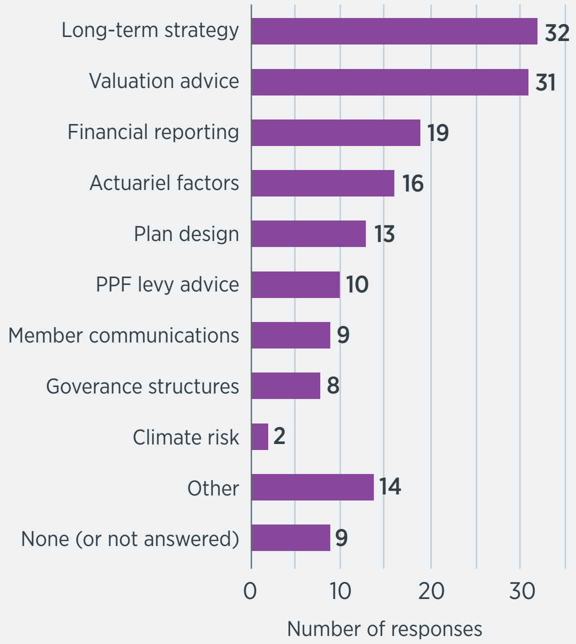


Where there was more than one scheme covered by the advice, we asked for the aggregate size and the status for any remaining active members across the schemes.

Other advice provided

Question: 'Please indicate all other corporate work by your organisation in relation to this scheme in the last 3 years (apart from that carried out by a scheme actuary's team).'

Other advice provided to sponsor



Compared to the advice we reviewed for the previous **Pensions thematic review**,[15] the schemes are relatively larger (59% of the examples related to schemes with assets over £100 million, compared to 40% in the factors review) and a greater proportion are closed to both new entrants and new accrual (79% compared to 66% previously).

15 | **Pensions: actuarial factors used to calculate benefits in UK pension schemes (2020)**

Appendix 2 – Current legal and regulatory requirements

Current legislative requirements

The majority of the actuarial advice we reviewed related to valuations in 2020 and 2021. In this appendix we have summarised the main legislative requirements applying to UK DB schemes at that time, which provides a backdrop to the advice we reviewed.

Actuarial valuations

Pension schemes are required to adopt a statutory funding objective, which requires the scheme to have sufficient and appropriate assets to make provision for its liabilities (or technical provisions). However, there is no prescribed actuarial basis. Assumptions need to be chosen prudently and selected such that the value placed upon the liabilities in conjunction with the strength of the covenant of the employer provides sufficient security of benefits for the members.

The assumptions and methodology are usually determined by the pension scheme trustees, having obtained advice from the scheme actuary. For the vast majority of pension schemes, the sponsor is required to 'agree' the assumptions to be adopted, along with the contributions to be paid to meet any deficit that is identified. In some cases, the sponsor will provide a contingent asset to the pension scheme in place of higher contributions that will provide a level of security to the scheme on a specified event occurring, often including employer failure. The sponsor often obtains advice on these matters from an independent actuary.

Long-term objective

Many pension schemes have voluntarily established a higher funding target than the technical provisions. This higher target represents a future position where the scheme would either be 'self-sufficient' from the sponsor under most scenarios, or reach a position where a full buy-out could be achieved. This is known as a long-term funding target or objective or a low-risk approach. The trustees, sometimes with the agreement of the sponsor, typically seek to reach this target from investment returns, although explicit sponsor contributions may also be pledged. In many cases, there is agreed in advance a series of changes to the investment strategy intended to reduce the reliance on return-seeking assets following periods of investment outperformance. The process for reaching this target is known by various terms, including investment journey plan or flight path. Many of the examples we reviewed related to the long-term target being developed for a pension scheme.

Following the Pension Schemes Act 2021, all pension schemes will be required to establish a long-term objective and to be invested in a low-risk manner by the time they reach 'significant maturity'. The technical provisions will also need to be consistent with this approach. TPR has proposed a twin-track approach to regulation consisting of: 'fast track', where the various aspects of a valuation – including assumptions and recovery periods – are within specified parameters and regulatory intervention consequently unlikely; and 'bespoke', where a different approach has been agreed and may need to be justified to the regulator.

At the time of preparing this report, the exact rules and start date for this new funding regime had not been finalised. TPR first consulted on this in **March 2020**[16] and then published a further consultation in **December 2022**.[17] As a consequence, the advice under review was typically given against the backdrop that new requirements were likely to apply at the following actuarial valuation, and there was consequently debate around the appropriateness of taking steps towards the new regime, even though it was not yet required (or fully defined).

16 | **TPR: Defined benefit funding code of practice consultation (2020) and interim response (2021)**

17 | **TPR: Defined benefit funding code of practice second consultation (2022)**

Appendix 3 – References

List of footnote references

Ref No.	Title	Author	Description
1	**TAS 100: Principles for technical actuarial work (2016)**	FRC	FRC technical standard applying to all actuarial work
2	**The Actuaries' Code (2019)**	IFoA	The ethical Code of Conduct to which all members of the IFoA must adhere (Version 3.0)
3	**TAS 300: Pensions (2016)**	FRC	Current FRC technical standard for specified types of pensions work
4	**TAS 100: General actuarial standards (2023)**	FRC	Updated FRC technical standard applying to all actuarial work – version 2.0 applying from 1 July 2023
5	**Standard Setting at the IFoA (2020)**	IFoA	As part of its regulatory function, the IFoA sets and maintains a framework of standards and non-mandatory guidance
6	**APS X2: Review of Actuarial Work (2015)**	IFoA	APS X2 imposes requirements in relation to Work Review and Independent Peer Review for all IFoA members
7	**Pension Schemes Act 2021**	UK Parliament	Legislation amending funding of UK DB schemes
8	**A consultation on the Reform to Retail Prices Index (RPI) Methodology (2020)**	HM Treasury	The government and UK Statistics Authority (UKSA) have published the response to their joint consultation on the timing of the reform to the Retail Prices Index (RPI)
9	**Managing investment and liquidity risk in the current economic climate (2022)**	TPR	Initial statement in the aftermath of extreme movements in gilt yields in late September 2022
10	**Actuaries' Code guidance on taking responsibility for your work (2019)**	TPR	Guidance on the application of the Actuaries' Code
11	**Thematic Review Report: Funeral Plan Trusts (2022)**	IFoA	Report on the thematic review on the work of actuaries to funeral plan trusts
12	**APS P1: Duties and responsibilities of members undertaking work in relation to pension schemes (2022)**	IFoA	APS P1 imposes requirements on members providing advice to pension schemes, including provisions relating to conflicts of interest (Version 3.0)

Ref No.	Title	Author	Description
13	**IFoA Actuarial Monitoring Scheme**	IFoA	IFoA website page for AMS
14	**IFoA corporate pensions review launch (2022)**	IFoA	Thematic review launch
15	**Pensions: actuarial factors used to calculate benefits in UK pension schemes (2020)**	IFoA	This review looked at current practices adopted by actuaries advising on commutation rates and transfer values in the calculation of benefits for UK pension schemes
16	**Defined benefit funding code of practice consultation (2020) and interim response (2021)**	TPR	First TPR consultation on the revised code of practice for funding DB schemes
17	**Defined benefit funding code of practice second consultation (2022)**	TPR	Second TPR consultation on the revised code of practice for funding DB schemes

Appendix 4 – Abbreviations

List of abbreviations used in this report

Abbreviation	Full term
AMS	Actuarial Monitoring Scheme
APS	Actuarial Profession Standard
DB	Defined benefit
ESG	Environmental, Social and Governance
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
IFoA	Institute and Faculty of Actuaries
LDI	Liability driven investment
RPI	Retail Prices Index
TAS	Technical Actuarial Standard
the Code	The Actuaries' Code
TPR	The Pensions Regulator

Institute and Faculty of Actuaries

Beijing
14F China World Office 1 · 1 Jianwai Avenue · Beijing · China 100004
Tel: +86 (10) 6535 0248

Edinburgh
Level 2 · Exchange Crescent · 7 Conference Square · Edinburgh · EH3 8RA
Tel: +44 (0) 131 240 1300

Hong Kong
1803 Tower One · Lippo Centre · 89 Queensway · Hong Kong
Tel: +852 2147 9418

London (registered office)
7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP
Tel: +44 (0) 20 7632 2100

Oxford
Belsyre Court · 1st Floor · 57 Woodstock Road · Oxford · OX2 6HJ
Tel: +44 (0) 1865 268 200

Singapore
163 Tras Street · #07-05 Lian Huat Building · Singapore 079024
Tel: +65 6906 0889

www.actuaries.org.uk