



## **Pensions work and the scope of the Transformations TAS**

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Pensions actuaries undertaking certain tasks where members' accrued benefits are modified or transferred without their consent need to have regard to the [Transformations TAS](#) for work completed from 1 October 2011. Although the scope of this TAS is much narrower than that of the Pensions TAS, pensions actuaries need to step through similar processes to ascertain whether or not a piece of work is within scope.<sup>1</sup> The BAS has indicated (see in particular 3. below) that not all pensions transformation actuarial work is within scope of the Transformations TAS. Judgement is also needed in some areas to determine whether the work is in scope. This document examines the scope of the Transformations TAS in relation to pensions work, highlighting a number of issues and uncertainties. Where appropriate, it has drawn on matters highlighted in the [Significant Considerations](#) ("SC") document and in these situations the relevant paragraphs are stated. The document does not examine what action is needed once it is determined that an item of work is within scope – that will reflect the materiality and proportionality of the work for the decision being made; see for example the ACA's document ["An approach to applying the reporting principles within Technical Actuarial Standards"](#).

Under the Schedule to the [Scope & Authority](#), pensions work which falls within scope of the Transformations TAS is also (from 1 October 2011) within the scope of the generic TASs (unless it was already brought into scope from 1 April 2011 via the Pensions TAS or was already within scope of the generic TASs by virtue of being Reserved). In addition, D.1.2 of the Transformations TAS effectively states that pensions work that is within the scope of the Transformations TAS is also within the scope of the Pensions TAS.<sup>2</sup>

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<sup>1</sup> See the ACA publication, ["Pensions work and the scope of the Pensions TAS"](#). Reference to this publication is not required when assessing whether pensions actuarial work is within scope of the Transformations TAS.

<sup>2</sup> This suggests that the Transformations TAS is intended to apply to a subset of the work within the scope of the Pensions TAS. But differences in the wording used in these two TASs mean that there is some work which is not in scope of the Pensions TAS but which might be considered to be in scope of the Transformations TAS (see below).

## 1. Reserved Work

The Transformations TAS applies to all Reserved Work concerning a “pension transformation” (which is defined as “A change in the terms underlying the accrued benefits of some or all of the members of a pension scheme, without the consents of those members”). Such work will already be within scope of the three generic TASs and the Pensions TAS. For a discussion on this topic, including the territorial limitations, see the ACA’s document [“Reserved Work and its application to pensions actuarial advice”](#).<sup>3</sup>

Where there is doubt as to whether the work is Reserved Work, this doubt has become less relevant since the commencement of the Pensions TAS on 1 April 2011. However, the distinction is not entirely irrelevant. In particular, paragraph 24(c)(iii) of the [Scope & Authority](#) enables a person commissioning work that is neither Required<sup>4</sup> nor Reserved, to instruct the actuary to depart from the requirements of TASs.

## 2. Non-Reserved Work

The Transformations TAS also applies to three areas of non-Reserved Work which are related to similar areas of non-Reserved Work under the Pensions TAS. These are set out in the table below. Unlike the Pensions TAS the topic areas are defined relatively narrowly.

There are some areas where judgement may be required in determining whether or not a piece of work is within scope of the Transformations TAS. One is in interpreting the phrase “actuarial work”. The BAS has sought (B.1.4) to assist the actuary by providing the following:

*“What constitutes actuarial work depends on matters such as whether users would reasonably expect the work to be performed using actuarial techniques, and whether the work involves risk, uncertainty or modelling. Actuarial work often involves the exercise of judgement. Some work performed by actuaries might not be actuarial work.”*<sup>5</sup>

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<sup>3</sup> Under section 3 of this document (Reserved Work “by regulation”) this includes Reserved Work under the sub-headings of “Bulk transfers without consent”, “GMP conversion exercises” and “Modification of subsisting rights”.

<sup>4</sup> See paragraphs 15-16 of the [Scope & Authority](#) for the definition of Required Work.

<sup>5</sup> The same explanation is found in the Pensions TAS and the Insurance TAS. The BAS also states (SC para 4.9) that if the work is presented as actuarial other than through an incidental reference, it is actuarial work whether or not is performed by an actuary. It also states that if users understand that work has been done by an actuary acting in a professional actuarial capacity, it is actuarial work.

Care is needed when applying the following definitions that can be found within the description of each topic area:

- “pension scheme” – which is defined as *“An occupational or personal pension scheme established under UK legislation”* which means that it can include unregistered schemes (such as employer-financed retirement benefit schemes and section 615 schemes) and unfunded schemes.
- “governing body” – which is defined as *“The trustees of an occupational pension scheme or the administering authority of a section of the Local Government Pension Scheme”* which means that the managers of personal pension schemes are not included even though this term is always used alongside the term “pension scheme”.<sup>6</sup>

Although the BAS does not require this, actuaries may wish to record their reasons if they reach a judgement that the work they are undertaking is not within scope of the Transformations TAS.

The first two columns of the table below follow the wording used in the Transformations TAS. The items in the “Work included?” column are listed in the Transformations TAS to give assistance in interpreting what work is within scope, but the list is not intended to be exhaustive. In most situations, the information below provides further guidance on what is regarded as actuarial work within the topic area. The BAS does not state any views as to what items of work ought to be performed in a given client situation (only what information should potentially be included if an in-scope item of work is performed). The work actually performed is a matter for the client and the regulatory background against which the work is being undertaken.

Topic	Work included?	ACA comment
C.1.5 – Actuarial work for the governing body of a pension scheme concerning the transfer of the benefits of some or all members of a pension scheme without the consents of those members.	<ul style="list-style-type: none"> <li>√ comparing the values of benefits before and after the transfer;</li> <li>√ comparing funding levels before and after the transfer; and</li> <li>√ comparing the terms of member options (such as early retirement or commutation) before and after the transfer.</li> </ul>	<p>C.1.5 is probably intended to be a subset of C.1.11 of the Pensions TAS (but see the first bullet of 5(i) below).</p> <p>The BAS states that work done for the receiving governing body is within scope (C 1.8 and SC para 5.23), so within the bulk transfers without consent context it goes significantly beyond Reserved Work. It also covers defined contribution (but not personal pension) schemes if there is actuarial work involved.</p>

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<sup>6</sup> C.1.10 confirms that the scope does not include work in connection with a transfer from one personal pension scheme to another (but this does not exclude transfers where only one party is a personal pension scheme). This is because the BAS expects that there is very little actuarial work associated with changes of personal pension providers (SC para 5.29).

Topic	Work included?	ACA comment
		<p>The BAS states that if a governing body wants additional reassurance beyond the statutory requirements then any such actuarial work is within scope (SC para 5.22).</p> <p>The BAS states that arranging the transfer of liabilities is out of scope (SC para 5.22).</p>
<p>C.1.6 – Actuarial work for the governing body of a pension scheme concerning the modification of the accrued benefits of some or all members of a pension scheme without the consents of those members.</p>	<ul style="list-style-type: none"> <li>√ comparing the values of benefits before and after the modification;</li> <li>√ comparing funding levels before and after the modification; and</li> <li>√ comparing the terms of member options (such as early retirement or commutation) before and after the modification.</li> </ul>	<p>Given D.1.2, C.1.6 is presumably intended to be a subset of C.1.7 of the Pensions TAS, but read in isolation:</p> <p>(a) it includes work for the governing body of an unfunded pension scheme; and</p> <p>(b) of potentially greater significance (but see 5(i) below) it appears that modifications that do not require changes to the scheme’s governing documents are included.<sup>7</sup></p> <p>Many scheme types may fall under this topic heading, such as hybrids and money purchase.</p> <p>As with the Pensions TAS the scope goes beyond “Section 67” work as it will pick up those adjustments to accrued rights that are exempt from Section 67.<sup>8</sup> Changes that improve member</p>

<sup>7</sup> If the pensions transformations covered by the Transformations TAS are wider than those covered in the Pensions TAS this appears to be at odds with the BAS statement that “All actuarial work which is within scope of the Transformations TAS is also covered by the Insurance TAS or the Pensions TAS” (SC para 5.2).

<sup>8</sup> The BAS gives changes in pension indexation from RPI to CPI as an example of a change which is in scope of the TAS despite being exempt from Section 67 (SC para 5.24), but as there is currently no such exemption under Section 67 this appears to be incorrect. It is possible that the BAS is actually referring to changes which arise automatically as a result of the statutory indexation changes (and so are outside the scope of Section 67) but this is not clear.

Topic	Work included?	ACA comment
		<p>benefits and/or are required by changes in legislation are also in scope.<sup>9</sup></p> <p>Non-Reserved actuarial work in connection with GMP conversions will also be within scope.</p>
<p>C.1.7 – Actuarial work for the governing body of a pension scheme in wind up that concerns the transfer of liabilities to an insurer without the consents of those members.<sup>10</sup></p>	<ul style="list-style-type: none"> <li>√ comparing the values of benefits before and after the wind up/transfer;</li> <li>√ comparing funding levels before and after the wind up/transfer; and</li> <li>√ comparing the terms of member options (such as early retirement or commutation) before and after the wind up/transfer.</li> </ul>	<p>C.1.7 does appear to be a clear subset of C.1.15 of the Pensions TAS.</p> <p>There can be a lot of actuarial activity when a scheme is in wind up, although the linkage to transferring the liabilities to an insurer restricts the potential areas within scope. Neither the FAS nor the PPF are insurers (but if as a result of a PPF assessment process the scheme has sufficient funds to wind up outside the PPF, actuarial work regarding the resulting approaches to an insurer will be within scope).</p> <p>The BAS states that actuarial work in connection with a buy-in is not covered by C.1.7 (SC para 5.28).</p>

Some non-Reserved Work may be within the scope of the Transformations TAS by virtue of more than one topic area. The BAS gives the example of work concerning the modification of pension scheme benefits in order to facilitate a buyout being potentially within both C.1.6 and C.1.7 (SC para 5.4).

An individual who is not a member of the Actuarial Profession could potentially carry out non-Reserved Work that, if carried out by actuaries, would be subject to the Transformations TAS and so also subject to the three generic TASs and the Pensions TAS.

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<sup>9</sup> The BAS states that changes to scheme rules which affect the underlying security of the benefits fall within C.1.6 (SC para 5.24) but it seems from the wording of C.1.6 that security changes alone are not covered.

<sup>10</sup> The BAS states that actuarial work concerning the transfer of liabilities to an insurer is covered by C.1.7 when the work is provided for the governing body of a scheme in wind-up or contemplating wind-up (SC para 5.26). But C.1.7 only covers work for schemes which are actually in wind-up.

### **3. Stated exclusions**

In developing the Standard the BAS has indicated (SC paras 5.10 and 5.28) that some areas are excluded from the Transformations TAS. In relation to pensions transformations they are:

- merger and acquisition pensions work for employers; and
- advice and guidance on pension scheme buy-ins (ie when trustees purchase insurance contracts to meet pensions obligations).

The Transformations TAS itself is silent on these exclusions. So the decision on whether or not they are actually subject to the Transformations TAS depends on interpreting the table in section 2 above and checking whether the work is Reserved Work.

Subject to any Reserved Work considerations, these two areas would seem to be excluded – the first because it is corporate work and the second because the transaction is essentially an investment rather than a transformation decision. But if there is a transformation element it might fall under C.1.6 (for example, if some adjustment is first made to the shape of the benefits to make this acceptable to the insurer).<sup>11</sup>

### **4. Corporate actuarial work**

Corporate actuarial work is not subject to the Transformations TAS (subject to any Reserved Work considerations) as the pensions scoping in relation to non-Reserved work is exclusively on actuarial work for governing bodies. The BAS states that actuarial work in pensions for employers concerning transformations is excluded because, for any pension transformation to proceed, actuarial information must also be produced for the trustees (SC para 5.11).

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<sup>11</sup> It is not clear whether the arguments used by the BAS in the SC to exclude this work can be relied on if the wording of the TAS suggests that the work could fall within scope.

## 5. Areas of uncertainty

When interpreting the table in section 2 (in relation to work which is not already in scope by virtue of being Reserved) there are some areas of uncertainty:

- i. *Not clear if within any topic area* – There are some areas of actuarial activity where judgement is required to determine whether the work is within scope.

*For example:*

- C.1.5 of the Transformations TAS, unlike C.1.11 of the Pensions TAS, seems to bring into scope work for governing bodies relating to transfers to something other than a “pension scheme”. This raises the question of whether PPF and FAS entry work is within scope of the Transformations TAS (and potentially, through D.1.2, from 1 October 2011 also to the Pensions TAS). But neither area of work was mentioned in the development of the Transformations TAS and so it seems that this would be unintentional. It can also be argued that both types of entry work are being carried out for the PPF rather than for the trustees. Furthermore C.1.5 talks about the transfer of the benefits, whereas what is happening in PPF and FAS entry is a transfer of assets for which compensation or assistance respectively is to be provided in lieu of benefits.
- C.1.6 of the Transformation TAS rests upon interpreting the meaning of “modification of the accrued benefits”, unlike C.1.7 of the Pensions TAS which is linked to changes to the scheme’s governing documents, which may be easier to apply as well as potentially being of narrower application. The BAS gives an example of a modification – actuarial work which is associated with the regular maintenance of a pension scheme but which leads to changes in the terms of options available to members, such as commutation factors (SC para 5.25). This could mean, for example, that all kinds of factor reviews come into scope of the Transformations TAS as well as the Pensions TAS, although our understanding is that the BAS intended its comments here to relate only to factors that are hard-coded into scheme rules.

- ii. *Not clear if actuarial work* – Although the TAS has sought to assist actuaries through discussing a possible interpretation of actuarial work and listing some work that is included and some which is excluded from topic areas, judgement is needed and uncertainties can remain.

*For example:*

- There are many areas of activity under the C.1.7 heading. The BAS states that the wind up of a pension scheme involves many tasks before the effecting of insurance contracts and the closure of the trust. Although many of these tasks may be actuarial work, it is only work concerning the transfer of members’ benefits which is within C.1.7 (SC para 5.26). However, the TAS does not provide a comprehensive list of what is and is not actuarial work. The BAS considers that using actuarial models to estimate the cost of buying out the benefits on wind-up is actuarial work but that simply obtaining quotations and passing them to a client is not. Likewise, it considers that reconciling contracting out earnings data with HMRC is not actuarial work. Comparing members’ benefits before and after the proposed transfer is actuarial work, but arranging the transfer is not (SC para 5.27).

## **6. Conclusion**

As has been seen, determining what pensions work is within scope of the Transformations TAS is not always a straightforward matter.

The ACA hopes that this document is of assistance to pensions actuaries. In any event, actuaries can choose to comply voluntarily with one or more BAS Standards. If the actuary is complying with TAS R, then in respect of those Standards for which there is to be voluntary compliance, the aggregate report must state the TASs with which it is intended that the report complies.

The ACA TAS Implementation Working Group intends to maintain this document in response to developments in BAS Standards.

This document is available on the ACA's website at [www.aca.org.uk](http://www.aca.org.uk).

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