THE SOCIETY OF ACTUARIES IN IRELAND

ACTUARIAL STANDARD OF PRACTICE PEN-3

ACTUARIAL FUNDING CERTIFICATES AND ACTUARIAL STATEMENTS UNDER THE PENSIONS ACT 1990

Classification

Mandatory

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE CODE OF PROFESSIONAL CONDUCT AND THAT ACTUARIAL STANDARDS OF PRACTICE IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES.

Legislation or Authority

The Pensions Act 1990 together with Regulations issued from time to time under the Act

Application

Any Scheme Actuary responsible for signing an Actuarial Funding Certificate or Actuarial Statement under the Pensions Act 1990

Version	**Effective from**
1.0	05.04.1993
2.0	15.07.2003
3.0	05.09.2003
3.1	30.12.2006
3.2	01.07.2008
3.3	01.11.2010
3.4	01.07.2011

Definitions

"the Act" means the Pensions Act 1990 as amended

"ASP" means Actuarial Standard of Practice

"*the Code*" means the Society's Code of Professional Conduct

"*the Disclosure of Information Regulations"* means the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 as amended *"should"* (where the context requires) means that members of the Society to whom this ASP applies must comply with a particular requirement or prohibition, unless the circumstances are such that the requirement or prohibition is inappropriate and non-compliance is consistent with the standards of behaviour, integrity, competence and professional judgement which other members of the Society or the public might reasonably expect of a member

"the Society" means the Society of Actuaries in Ireland

1 Introduction

1.1 This ASP is the "applicable professional guidance issued by the Society of Actuaries in Ireland and specified in the regulations" referred to in section 42(4) of the Act.

1.2 The Act requires that

(i) the trustees of a relevant scheme cause Actuarial Funding Certificates to be prepared by an actuary (section 42(2) of the Act).

(ii) the trustees submit to the Pensions Board such certificates (section 42(1) of the Act).

(iii) the Certificate certifies that as at a date, the "effective date", the scheme does/does not satisfy the funding standard provided for in section 44 of the Act (section 42(2) of the Act).

(iv) for a scheme which commenced before 1 June 2002, the first Actuarial Funding Certificate submitted in accordance with section 43 of the Act, having an effective date after 1 June 2002, shall also state the "certified percentage" in relation to the scheme.

(v) for a scheme where an Actuarial Funding Certificate with an effective date after 1 January 2001 has been prepared under section 42 of the Act, an Actuarial Statement must be included in the trustees' annual report relating to a period ending after the effective date of that certificate.

1.3 The Act specifies that "a relevant scheme shall be deemed to have satisfied the funding standard if, in the opinion of the actuary, the resources of the scheme at the effective date of the actuarial funding certificate would have been sufficient, if the scheme had been wound up on that date, to provide…" specified liabilities and the expenses of winding up (section 44 of the Act).

1.4 Finally, the Act requires that "in completing an actuarial funding certificate, the actuary, in addition to complying with other relevant provisions of this Part, shall have regard to such financial or other assumptions as he considers appropriate on the effective date of the certificate" (section 46(1) of the Act).

1.5 It is essential that Scheme Actuaries keep themselves informed on amendments to the Act as well as the Regulations pursuant to the Act and any amendments thereof as may occur from time to time. This ASP does not contain the full text of the relevant sections of the Act and does not give any interpretation of them. Any Scheme Actuary must satisfy himself that he has acted in accordance with the legislation as well as this ASP.

1.6 In accordance with section 42(4)(b) of the Act, the Scheme Actuary in completing the Actuarial Funding Certificate must comply with this ASP or "with any other applicable guidance issued by any other person (including the Minister) and specified in the regulations." It is essential that Scheme Actuaries keep themselves fully informed on any such additional applicable guidance.

1.7 This ASP highlights issues arising for Scheme Actuaries in signing certificates and completing statements. In particular, the considerations needed in the interpretation of the "financial and other assumptions" to be adopted are dealt with in detail.

1.8 In determining whether a scheme satisfies the funding standard, the Act is specific on a number of points such as:

(a) the actuary need only concern himself with the position had the scheme been wound up on the effective date of the certificate;

(b) the liabilities to be taken into account are specified in the Third Schedule of the Act and, apart from preserved benefits, relate to the "benefits payable under the rules of the scheme"; and

(c) a scheme is deemed to have satisfied the funding standard if in the opinion of the actuary the scheme's resources would have been sufficient at the effective date to provide for the specified liabilities and expenses on winding up at that date.

2 The Actuarial Funding Certificate

2.1 The importance of the Actuarial Funding Certificate and the Actuarial Statements contained within the trustees' annual reports places a high level of responsibility on the profession. An Actuarial Funding Certificate or an Actuarial Statement may be signed only by an actuary who holds a current Scheme Actuary Practising Certificate issued by the Society.

It is emphasised that the responsibility for signing the document is that of the signing Scheme Actuary alone. The Code makes it clear that every actuary in his professional capacity, whether remunerated by salary or fee, has a duty to his profession and his responsibility to his employer or client must be consistent with this.

2.2 The Scheme Actuary is in a special position in that, in addition to the normal responsibilities to his employer or client, when signing a certificate he has statutory obligations laid on him by the Act and by regulations made pursuant to the Act.

2.3 The Act places responsibility on the trustees to have an Actuarial Funding Certificate prepared as at the effective date. In practice, the effective date is chosen by the trustees.

2.4 The following should be noted in relation to the signing of Actuarial Funding Certificates:

(a) The Scheme Actuary is required to state if, in his opinion, the resources of the scheme at the effective date are/are not sufficient etc. and, based on this opinion, <u>to certify</u> that the scheme satisfies/does not satisfy the funding standard.

(b) For a scheme which commenced on or before 1 June 2002, the first Actuarial Funding Certificate with an effective date after 1 June 2002 must state the “certified percentage” in relation to the scheme.

(c) A copy of the latest Actuarial Funding Certificate must be included in the trustees’ annual report to scheme members in accordance with the Disclosure of Information Regulations. Section 55 of the Act also requires that an Actuarial Statement be included in the trustees’ annual report – see section 3 of this ASP.

2.5 The Scheme Actuary must make whatever enquiries he considers appropriate to satisfy himself that he has been supplied with all the relevant data and information. Section 54(4) of the Act obliges both the employer and trustees to comply with any requests from the Scheme Actuary to furnish him with such information as he may reasonably require to enable him to carry out his functions under the Act.

2.6 The certificate relates to the winding up of the scheme. The Scheme Actuary must have regard therefore to the priority rule of the scheme in conjunction with the overriding priority provisions set out in Section 48 of the Act.

2.7 For the purposes of the funding standard, the liabilities at the effective date must represent the value placed by the Scheme Actuary on the benefits outlined in section 44(a) of the Act.

Such value must be computed as follows:

(a) In respect of pensions in payment (including pension benefits for members who have reached normal pensionable age), on an actuarial basis which is consistent with the cost of buying annuities in the marketplace.

(i) The cost can be determined by:

a) obtaining annuity quotations either on an individual or bulk basis, or
b) fitting an actuarial basis to sample market rates, bearing in mind the age profile of the pensioners and subject to adjustment, where appropriate, for bulk annuity discounts based on current market practice provided that the Scheme Actuary is satisfied that such a discount is likely to be available for the scheme.

(ii) The Scheme Actuary is not required to take account of the issue of market capacity in the event of the actual wind-up of a scheme that has large amounts of pensions in payment.

(iii) However, the Scheme Actuary should make suitable adjustments where the pensions payable under the scheme rules cannot be replicated easily in the market.

(iv) Specifically, for schemes providing index-linked or parity pay increases to pensions in payment, the Scheme Actuary may assume that, in the event of a wind-up, annuities with a fixed rate of increase in accordance with the basis specified in the Appendix to this ASP would be purchased by the trustees.

(v) For a scheme where there is substantive evidence that the scheme-specific mortality experience is significantly different from the mortality experience of individual life office annuitants and the Scheme Actuary is satisfied that this evidence would be taken into account by an insurer in a bulk purchase, the Scheme Actuary may adjust the mortality basis underlying current market annuity rates to reflect the extent of the difference between the scheme's mortality experience and the experience of individual life office annuitants. However, the adjusted mortality basis must still take into account an allowance for future improvements in mortality rates.

(b) In respect of deferred pension entitlements (all active members are treated as becoming deferred members on the effective date), the value shall be not less than the sum of individual transfer values to which each member would be entitled under the standard transfer value basis contained in ASP PEN-2 issued by the Society.

(c) Allowance must be made for the estimated expenses of administering the winding up of the scheme. Such allowance would typically be the greater of 2% of the sum of the liabilities under (a) and (b) above and €10,000. The Scheme Actuary may use an alternative figure provided he is satisfied that his figure represents a best estimate of these expenses, bearing in mind such factors as the length of time to complete the process, difficulties with administration, the number of members involved and the complexity of benefits.

2.8 Section 46 of the Act states that, notwithstanding any provision in the winding up rule in relation to the purchase of annuities, the Scheme Actuary “may” assume that the liabilities of the scheme “could” have been provided by applying resources, of equivalent actuarial value to the benefits specified in the Acts to the payment to another scheme or to the purchase of approved contracts e.g. buy-out bonds. The Act does not compel the Scheme Actuary to adopt this approach. Where this approach is not used in relation to deferred pension entitlements, the Scheme Actuary should draw the trustees’ attention to that fact in his covering letter or report.

If this approach is used in relation to pensions in payment (including pension benefits for active members who have reached normal pensionable age), the Scheme Actuary must assume that the payment to another scheme would be equivalent to the actuarial value of the benefits calculated in accordance with paragraph 2.7.

2.9 The Scheme Actuary signing a certificate must have regard to any concentration of investments or self-investments as prescribed by the regulations under the Act. Self investment includes contributions due to the scheme but not yet paid.

2.10 If the assets of the fund take the form of insurance policies, the Scheme Actuary should have regard to the practice of the office in terminating such policies and, where appropriate, the realisable value of such policies. Where annuity policies have been purchased in respect of pensions in payment or deferred annuity policies in respect of deferred benefits, either the liabilities can be reduced in respect of the annuities or deferred annuities purchased or the policies valued on a basis consistent with paragraph 2.7.

2.11 For the purposes of the funding standard, the value of assets at the effective date should represent a best estimate of the distributable proceeds on an orderly wind-up of the scheme commencing on the effective date. Prepaid contributions may be included as part of the distributable proceeds on winding up if they would not fall to be refunded to the sponsoring employer in these circumstances.

2.12 If part of the assets of the scheme to be taken into account for the purpose of meeting the Funding Standard take the form of contingent assets – as defined in the Contingent Asset Guidelines published by the Pensions Board - the Scheme Actuary must carefully consider whether he or she has the relevant skills to competently value such assets. Where necessary, the Scheme Actuary must ensure that advice and guidance is sought from appropriate experts (which may include but are not limited to legal advisers, covenant assessors or corporate debt specialists) when determining the value to be placed on the contingent assets. When valuing or considering the use of contingent assets, the Scheme Actuary must refer to and take account of the content of the Contingent Asset Guidelines published by the Pensions Board and in particular the section describing a framework for contingent assets included as part of the realisable value of the assets of a scheme for the purpose of meeting the Funding Standard.

3 Actuarial Statements

3.1 Under the Disclosure of Information Regulations, the trustees' annual report must contain a copy of the latest Actuarial Funding Certificate. In addition, section 55 of the Act requires that the trustees' annual report shall include a statement by an actuary as to whether he is reasonably satisfied that, if he were to prepare an actuarial funding certificate having an effective date of the last day of the period to which the annual report relates, he would certify that the scheme satisfies the funding standard..

3.2 Also under section 55 of the Act, where, in the most recent Actuarial Funding Certificate, the Scheme Actuary has certified that, at the effective date of that certificate, the scheme did not satisfy the funding standard and a Funding Proposal has been submitted in accordance with section 49 of the Act, each trustees' annual report relating to a period ending on a day after the effective date of that Actuarial Funding Certificate shall include an Actuarial Statement.

This form of Actuarial Statement will attest as to whether the Scheme Actuary is reasonably satisfied that, at the last day of the period to which the trustees' annual report relates, the scheme will satisfy the funding standard at the effective date of the next Actuarial Funding Certificate or, where applicable, any later date specified under section 49(3) of the Act.

3.3 Where:

(a) the trustees' annual report does not contain a statement from the Scheme Actuary attesting that the funding standard is reasonably likely to be met under paragraph 3.1 or paragraph 3.2, or

(b) the statement by the Scheme Actuary does not state that the funding standard is reasonably likely to be met on the last day of the report period, or

(c) if a Funding Proposal is in place, the statement does not state that the funding standard is likely to be met at the effective date of the next Actuarial Funding Certificate or, where applicable, any later date specified under section 49(3) of the Act,

then the trustees are required to submit an Actuarial Funding Certificate to the Pensions Board within twelve months of the last day of the period to which the annual report relates or such later date specified by the Board. The Actuarial Funding Certificate shall have an effective date not earlier than the last day of the period to which the annual report relates.

3.4 It is not required that a full actuarial valuation be undertaken in order that the Scheme Actuary can sign the Actuarial Statement. Approximate projections may be used based on previous funding calculations for the scheme.

The Scheme Actuary must decide in the light of the funding level at the previous valuation and prevailing conditions, together with those experienced since the previous calculations, as to whether an approximate projection or a fresh valuation is appropriate.

3.5 The Scheme Actuary should satisfy himself that the value of the assets stated in the annual report represents their true value (usually they will have been audited or can be verified from statements from investment managers). Adjustments should then be made to reflect the estimated distributable proceeds on an orderly wind-up of the scheme commencing on the effective date .

3.6 In deciding whether to use approximate projections or not, the Scheme Actuary should take into account that, even with very stable financial conditions ruling over the period of projection, the value of liabilities in respect of active and deferred members can rise very rapidly and that the value of pension liabilities can rise as well as fall depending on the nature of the pension payments, on mortality experience and on annuity rates.

4 Pensions Board

4.1 Unless he was subsequently replaced, the Scheme Actuary who signed the Actuarial Funding Certificate which is currently in force must ensure that the Pensions Board is informed if he has not been asked to perform the calculations to enable him to sign the next due Actuarial Funding Certificate by the latest possible effective date of that certificate.

A Scheme Actuary who has been replaced by another Scheme Actuary should ensure that the Pensions Board is informed of the change. The incoming Scheme Actuary should also ensure that the Pensions Board is informed that he expects to be asked to perform the calculations to enable him to sign the next due Actuarial Funding Certificate.

4.2 When an Actuarial Funding Certificate is submitted to the Pensions Board and the Scheme Actuary signing the certificate is also a trustee or a director of a company acting as trustee, then that status must be disclosed in a letter accompanying the certificate.

5 Other issues

5.1 The funding standard set down in the Act may not necessarily be the same as that typically used in assessing solvency for the purposes of advice to trustees. The following illustrates some of the issues that could arise and to which the Scheme Actuary should have regard (this list should not be taken as exhaustive):

(a) The certificate relates to the position at the effective date. Changes between the effective date and the date the certificate is signed which might result in the scheme not satisfying the funding standard at the date of signing should be referred to when issuing the certificate. Where the Scheme Actuary is aware of the likely potential or expected occurrence of significant events, he should also refer to these when issuing the Actuarial Funding Certificate or Actuarial Statement.

(b) Differences between the scheme rules on winding up and the members' expectations on the basis of the trustees' established practice in relation to discretions, options, etc. In particular, when winding up occurs, some members might well have options which they might otherwise have no occasion to take or exercise. Included here might be a unilateral right to immediate early retirement pensions on winding up or an option which is only available subject to the consent of the trustees or employer. In all such cases, the Scheme Actuary should take particular care to notify the trustees or employer of the assumptions made and the consequences of them exercising their discretion or members availing of options different than those assumed.

(c) Any mis-matching of investments (in relation to the priority liabilities) which appears likely to arise in the light of the trustees' investment policy and any likely changes in that policy.

(d) Likely changes in membership, remuneration, early retirement policy, augmentation of benefits, etc. However, the Scheme Actuary need not allow for possible changes which are not currently envisaged by the trustees or employer and which would not be in keeping with recent experience.

Appendix Substitution of fixed rate increases for index-linked pension increases

For the purpose of paragraph 2.7 (a) (iv), the assumed rate of price inflation (PI) must be calculated as:

$$\frac{(1 + i)}{(1 + j)} - 1$$

where:

i is the annualised gross redemption yield on the France Trésor OAT 5.75% 25 Octobre 2032 stock, to 2 decimal places and

j is the annualised real yield on the France Trésor OAT€i 3.15% 25 Juillet 2032 stock, to 2 decimal places

as at the effective date of the calculation.

PI must be calculated to 1 decimal place, i.e. x.x%.

The fixed rate of pension increases to be substituted for index-linked increases must then be determined on the basis of the following table:

Annual Cap minus PI	**Index Linked Increase**	**Parity Pay Increase**
Less than -1.0%	Actual Cap	Actual Cap
-1.0%	PI - 1.25%	PI – 1.00%
-0.5%	PI - 1.00%	PI – 0.50%
0.0%	PI – 0.75%	PI – 0.25%
1.0%	PI – 0.50%	PI + 0.25%
2.0%	PI – 0.25%	PI + 0.50%
3.0%	PI	PI + 1.00%
No annual cap	PI	PI + 1.00%

For other rates of PI, the appropriate fixed rate increase must be determined by linear interpolation of the above rates.