GN3(ROI): ACTUARIAL FUNDING CERTIFICATES AND ACTUARIAL STATEMENTS UNDER THE PENSIONS ACT 1990

Classification

Practice Standard

Legislation or Authority

The Pensions Act 1990 ("the Act"), including subsequent amendments, 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

1. INTRODUCTION

1.1 The Pensions Act 1990 requires that

(i) the trustees of a relevant scheme cause Actuarial Funding Certificates to be prepared by an actuary (S42(2)).

(ii) the trustees submit to the Pensions Board such certificates (S42(1)).

(iii) the Certificate certifies that as at a date, the "effective date", the scheme does/does not satisfy the funding standard provided for in S44 (S42(2)).

(iv) for a scheme which commenced before 1 June 2002, the first Actuarial Funding Certificate submitted in accordance with S43, 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 S42, an Actuarial Statement must be included in the accounts relating to a period ending after the effective date of that certificate. The Actuarial Statement attests that the actuary is reasonably satisfied that he could sign an Actuarial Funding Certificate with an effective date of the last day of the period to which the accounts relate.

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 has been wound up on that date to provide…" specified liabilities and the expenses of winding up (S44).

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" (S46(1)).

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.

1.2 These notes highlight the 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.

1.3 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 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 on winding up to provide for the specified liabilities and expenses on winding up.

1.4 A certificate under the Act certifies that at the effective date the scheme satisfies/does not satisfy the funding standard set down in the Act. That standard may not necessarily be the same as that typically used by the actuary in assessing solvency for the purposes of his advice to trustees. The actuary should ensure therefore that the trustees or employer are aware of the differences (if any).

This could be done by means of a covering letter issued at the same time as the Actuarial Funding Certificate, or as part of the valuation report. Where appropriate trustees should be made aware that there is provision for them to comment on the financial position, including the Actuarial Funding Certificate, in their annual report.

It should be borne in mind that the trustees' annual report will contain an Actuarial Statement on meeting the funding standard where the latest Actuarial Funding Certificate has an effective date after 1 January 2001 and the report relates to a period ending after that date.

1.5 This guidance note is referred to in the Act in Section 42(4)(b) and the Scheme Actuary in completing the Actuarial Funding Certificate has to comply with this guidance note 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.

This guidance note 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 guidance note.

2. THE ACTUARIAL FUNDING CERTIFCATE

2.1 The importance of the Actuarial Funding Certificate and the Actuarial Statements contained within the scheme accounts place a high level of responsibility on the profession.

Only those holding a Scheme Actuary Certificate can sign either an Actuarial Funding Certificate or an Actuarial Statement.

It is emphasised that the responsibility for signing the document is that of the signing Scheme Actuary alone. The profession's Rules of Conduct make 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 Regulations.

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.
The first certificate is due not later than 3½ years after the commencement of the scheme or 1 January 1994 if earlier. Second and subsequent certificates must have an effective date not more than 3½ years after the effective date of the immediately preceding certificate.

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) In relation to the first Actuarial Funding Certificate having an effective date after 1 June 2002 submitted in respect of a scheme which commenced on or before 1 June 2002, the Scheme Actuary must state the certified percentage in relation to the scheme.

(c) In relation to an Actuarial Funding Certificate having an effective date on or before 1 June 2002 submitted after 1 June 2002 in respect of a scheme which commenced on or before 1 June 2002, the Scheme Actuary need not state the certified percentage in relation to the scheme. The specified percentage (S45(4)a)) in these cases is nil per cent.

(d) Where the latest Actuarial Funding Certificate has an effective date on or before 1 January 2001, a copy of that certificate must be included in the trustees' annual report to scheme members in accordance with the Disclosure Regulations. Where the latest Actuarial Funding Certificate has an effective date after 1 January 2001, then an Actuarial Statement must be prepared and signed by the Scheme Actuary – see next section on Actuarial Statements.

2.5 The meaning which the Scheme Actuary attaches to the words "financial and other assumptions" should comprehend a prudent view of the future without taking into account every conceivable unfavourable development. He should regard these words as excluding the possibility of events which he cannot reasonably be expected to have allowed for in a prudent best estimate approach.

2.6 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 actuary to furnish him with such information as he may reasonably require to enable him to carry out his functions under the Act.

2.7 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, in relation to active members, which are detailed in Section 3(b) of the Third Schedule (as amended by the Social Welfare Act 1992) and which refer in sub-paragraph (ii) to the "long service benefits" which are defined in Part I of the Act.

2.8 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 active 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.

(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 would be purchased in accordance with the basis specified in Appendix I. The assumptions outlined in Appendix I shall be reviewed not less frequently than quarterly by the Council of the Society of Actuaries in Ireland.

(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 the allowance for expected future improvements in mortality rates, on a prudent basis.

(b) In respect of deferred pension entitlements (all active members are treated as becoming deferred members on the effective date), the value shall be no less than the sum of individual transfer values to which each member would be entitled under the standard transfer value basis contained in Guidance Note 11 issued by the Society of Actuaries in Ireland.

(c) Allowance must be made for the estimated expenses of administering the winding up of the scheme. Such allowance would normally not be less than the greater of 2% of the sum of the liabilities under (a) and (b) above and €5,000. 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 lives involved and the complexity of benefits.

2.9 Section 46 of the Acts 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 Acts do 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 2.8.

2.10 The Scheme Actuary signing a certificate related to a directly-invested scheme must have regard to any concentration of investments or self-investments as prescribed by the regulations under the Act.

2.11 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.

2.12 For the purposes of the funding standard, the assets at the effective date must represent their realisable value, i.e. due allowance must be made for expenses of sale where appropriate while pooled assets should be valued at bid price.

3. ACTUARIAL STATEMENTS

3.1 Under S55 of the Act, the trustees' annual report must contain either a copy of the Actuarial Funding Certificate where it has an effective date on or before 1 January 2001. If the effective date of the Actuarial Funding Certificate is after 1 January 2001 and the report relates to an accounting period ending after the effective date of the Actuarial Funding Certificate, an Actuarial Statement must be included in the report and must attest that the Scheme Actuary signing the statement is reasonably satisfied that the scheme would satisfy the funding standard with an effective date of the end of the period to which the trustees' report relates.

Each then subsequent trustees' annual report must contain such an Actuarial Statement provided the effective date of the latest Actuarial Funding Certificate is later than 1 January 2001.

3.2 Also under S55 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 (GN3A (ROI)) has been submitted in accordance with S49, 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.

3.3 Where the trustees' annual report

a) does not contain a statement from the Scheme Actuary attesting that the funding standard is reasonably likely to be met under 3.1 or 3.2, or
b) the statement by the Scheme Actuary does not state that either the funding standard is reasonably likely to be met on the last day of the report period, or
c) that, 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,

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. 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 can be used based on the calculations employed for the latest Actuarial Funding Certificate or the current Funding Proposal.

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 approximate projections 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 establish the realisable value.

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 deferred liabilities 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 The Scheme Actuary who has signed the Actuarial Funding Certificate which is currently in force must inform the Pensions Board 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 inform the Pensions Board of the change. The incoming Scheme Actuary should also inform the Pensions Board 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

As pointed out in paragraph 1.4 of this note, 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):

5.1 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.

5.2 Differences between the scheme rules on winding up and the expectations of members on the basis of the established practice of the trustees in the past 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 that assumed.

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

5.4 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 I Substitution of fixed rate increases for index-linked pension increases

For the purpose of section 2.8(iv), the assumed rate of price inflation (PI) should be caclculated as:

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

where:

i is the annualised gross redemption yield on the 4.6% Treasury 18/4/2016 stock, to 2 decimal places and

j is the annualised real yield on the France Trésor OATi 25 July 2029 stock, to 2 decimal places

as at the last working day of the month immediately prior to the effective date of the calculation.

PI should be calculated to 1 decimal place.

The fixed rate of pension increases to be substituted for index-linked increases should 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 should be determined by linear interpolation of the above rates.