



A particular actuary's view of limiting actuarial discretion

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What an actuary does?

- Funding
 - Contribution rates
 - Financial position
 - “Best-estimate” v. “Conservative” assumptions
 - Existence of surplus
- Individual calculations (“ARV”)
 - Seldom needed if benefits defined
 - Stability over time
 - Unisex rates
 - Adjustment for funding level
 - Transfer values v. Individual benefit payments
 - If don’t adjust defined benefit, why adjust formula benefit?

Activities and decisions

Project benefits payable in each future year

Split between past and future service

Multiply by probabilities of occurrence

- Which benefits to project?
- Fund or insure using current cost
- How will salaries and pensions increase?
- Mid-year or monthly?
- Prospective service benefits?
Split accrual rates? Additional service?
- Exclude benefits if no probability of occurrence assumed (e.g. retrenchment)
- Make implicit allowances (e.g. 100% married)
- Individual or “group”?

■ Activities and decisions (contd.)

Discount to get a present value

- Consistency with
 - current market yields or long term view
 - salary and pension increases, and
 - daily variation

Adjust for share of reserves

Trustee discretion, except where Act dictates

Questions / constraints

- When must individual circumstances be taken into account when determining assumptions?
 - Clarence
 - Dutrieux

- When can you adjust a benefit as a result of reserves at fund level or the financial position of fund?
 - AIPF
 - Current pensioner action group matter

Conclusion

- Impractical to limit the actuary's discretion when advising on funding
 - Too many decisions to take
 - Layman will need to be guided – guide will decide
- Require disclosure where different methods or assumptions could reasonably be used that would have a material impact on the financial situation of the fund or the benefit paid to a member
- Trustees guide actuary on choice of method and assumptions as a result of that disclosure

■ Suggested approach

- Best-estimate of the accrued liability when paying a benefit to an individual
 - Take no account of funding level or reserves
 - Involve trustees in whether “current market conditions” or “long term conditions” will apply
 - Use
 - actual circumstances of member if benefits vest
 - funding assumptions if vesting is deferred
 - Assumptions must be reasonable when applied to the “average” individual member

- Asset share when determining a bulk transfer value (subject to a maximum of best-estimate plus legislated share of reserves)
 - Funding assumptions acceptable if DB to DB
 - “Individual” assumptions necessary if DB to DC