

## **GN9 : Funding Defined Benefits - Actuarial Reports**

### ***Classification***

Practice standard

**MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES**

### ***Application***

- a) Any Actuary responsible for preparing an actuarial report in relation to a retirement benefits scheme established in the Republic of Ireland that includes advice relating to funding defined benefits where the report has been prepared:
- in order to satisfy legal requirements, including those imposed by the scheme's governing documents,
  - because a formal actuarial valuation report on the funding of the scheme is requested by the client, or
  - to give funding advice when a scheme is initially established.

The Guidance Note applies to, but is not limited to, reports on valuations that are required under Section 56 of the Pensions Act 1990. It does not apply to a funding proposal to which Guidance Note GN3A applies. However, an actuarial report prepared for the purpose of a funding proposal may also satisfy the requirements of Section 56 of the Act if it is prepared in accordance with this Guidance Note.

Paragraph 1.4 of this Guidance Note applies to any funding recommendation that is not made in a formal actuarial valuation report. Paragraph 2.1.2 of this Guidance Note also applies to preliminary reports.

This Guidance Note does not generally apply to defined contribution schemes. However, it should be applied to such schemes if the advice given is on the contributions required to meet a particular level of benefit (other than lump sum death benefits) or the scheme is subject to the statutory minimum funding standard. The principles of GN9(ROI) must be applied if the benefit levels in a scheme with fixed contribution rates are set periodically by the actuary rather than being based on individual account values.

This Guidance Note does not apply to the calculation of Revenue maximum contributions to defined contribution schemes.

This Guidance Note does not apply to calculations of pension expense or directors' remuneration disclosures for employers' accounts.

### ***Legislation or Authority***

Pensions Act 1990 (“the Act”), including subsequent amendments, together with Regulations issued from time to time under the Act.

<b><i>Version</i></b>	<b><i>Effective from</i></b>
1.0	01.09.94
2.0	01.07.05

## **1 Introduction**

- 1.1 The main purpose of the Guidance Note is to ensure that reports contain sufficient information to enable the expected future course of a scheme’s contribution rates to be understood and also to enable the current solvency level of a scheme to be understood. The guidance is therefore intended to ensure that the methods and assumptions used are properly explained and that variations between the assumptions chosen and actual experience are analysed in the report.
- 1.2 The Guidance Note is not intended to restrict the actuary's freedom of judgement in choosing the method of valuation and the underlying assumptions employed in deriving the contributions referred to in paragraph 2.6.2 (or commenting on their adequacy) where these are not restricted by legislative requirements.
- 1.3 In this Guidance Note references to the previous or preceding valuation or report mean the previous or preceding valuation or report of a similar nature, whether carried out by the actuary or another actuary.
- 1.4 The actuary may need to update the funding advice between formal actuarial valuations to allow for benefit augmentations or other benefit changes, or to take account of recent experience that differs from the actuarial assumptions. It is not necessary for such advice to comply with GN9(ROI), provided that the actuary confirms that the advice is consistent with the advice given in the previous formal actuarial valuation report and explains any change in valuation assumptions necessary to maintain consistency.
- 1.5 The Guidance Note continues to apply while a scheme is run as a closed fund. Where an event occurs which under a scheme’s Trust Deed and Rules triggers winding-up, the actuary must consider whether it would be appropriate to advise the trustees that an actuarial valuation should be carried out. The Guidance Note continues to apply where a scheme has commenced winding-up, although in such circumstances some parts of the Guidance Note might not be applicable (see paragraph 1.6 below).
- 1.6 The actuary must confirm whether the valuation report has been prepared in accordance with GN9(ROI) current at the date the valuation report is signed. The actuary need not comply with any part of GN9(ROI) that is clearly inappropriate, but a complete explanation of all such departures must be given.

- 1.7 If the valuation is intended to satisfy the requirements of Section 56 of the Act, the actuary signing the report must hold a current Scheme Actuary Certificate.

## **2 The Report**

### **2.1 Introduction**

- 2.1.1 The items in 2.2 to 2.9 below, except where otherwise indicated, are essential components of a report. Suitable explanations of other features may also be very important and therefore additional information may often be desirable.
- 2.1.2 Should a preliminary report be issued not including all the components listed below, in the expectation that a further and full report will be made, it must be made clear in the preliminary report that it does not conform to GN9(ROI) but that the further report will do so.
- 2.1.3 The actuary must ensure that the report is clear and appropriate to the circumstances and its intended audience.

### **2.2 Basic Information**

- 2.2.1 The report must make it clear to whom it is addressed, by specifying the client. The report must state the purpose for which the valuation is made and the dates as at which the current valuation and, if applicable, the immediately preceding valuation were conducted. The report must be signed by the actuary and the date of signing must be provided.
- 2.2.2 Although any report will be addressed to the actuary's client (normally the trustees) the actuary needs to bear in mind that the client may wish to make the report available to third parties. Any limitations on the extent to which third parties can rely on the advice must be set out in the report.
- 2.2.3 The report must state that it has been prepared in accordance with GN9(ROI) current at the date the valuation report is signed. Any departures from GN9(ROI) must be explained fully (see paragraph 1.6). If the valuation is intended to satisfy the requirements of Section 56 of the Act, the report must state that this is the case and must confirm that the actuary signing the report holds a current Scheme Actuary Certificate (see paragraph 1.7).
- 2.2.4 The report must also refer to the appropriate sections of the legal documentation of a scheme and any legislative provisions under which the valuation is being made.
- 2.2.5 The report must include a statement of the benefits which have been valued. This may be a summary of the terms of the scheme or a reference to appropriate documents. Reference must be made to the extent to which allowance has been made for discretionary increases in benefit (and the recent

practice in granting such increases) or discretionary benefits. If the actuary has excluded from the report assets and corresponding liabilities in respect of certain benefits, such as AVCs and pensions secured by annuities, the report must note these exclusions.

- 2.2.6 Where there is any doubt about the benefits, the actuary must specify where the uncertainty exists and make clear the assumption made.
- 2.2.7 The report must include a summary of the membership on which the investigation is based.
- 2.2.8 The report must state that the actuary has relied on the accuracy of the information provided by the trustees or administrators. The actuary must take reasonable steps to satisfy himself or herself that the data provided by the trustees or administrators is of adequate quality for the purpose of the valuation. If the actuary has any reason to doubt that the data is sufficiently reliable, the report must be qualified appropriately.
- 2.2.9 The report must include a summary of the investment strategy being pursued by the trustees, a statement of the market value of the assets at the valuation date and a summary of the investments held, subdivided between the main asset classes. If the scheme's assets are invested in an insurance policy or policies and a breakdown is not possible, a description of the nature of the policy or policies must be given. The report must confirm the source of the information on the scheme's investments. If the actuary has any reservations as to the asset information provided, this fact must be stated. Any reduction in the assets due to self-investment and concentration of investment (within the meaning of the Act) must be quantified.
- 2.2.10 If audited accounts, or the alternative trustees' report under article 7 of the Occupational Pension Schemes (Disclosure of Information) Regulations, 1998 (S.I. 215 of 1998), as at the effective date of the valuation are not available, this fact must be stated.
- 2.2.11 Reference must also be made to any insurance arrangements in place for the benefit of the scheme. This includes group life assurance held by the trustees. Information on any self-insurance of scheme benefits must be provided and where the funding position could be materially affected by the death of one or more members, this must be highlighted.

### **2.3 Inter-valuation Period**

- 2.3.1 The report must include a statement of the rates or amounts of contribution paid during the inter-valuation period; and also those recommended in the previous report and, where the amounts involved are material, in any subsequent advice. The report must also include a commentary on any material developments affecting the scheme during that period, and on any significant variations in experience from the assumptions made at the previous valuation.

## **2.4 Funding**

- 2.4.1 The report must state the funding objectives on which the advice referred to in section 2.6.2 has been based. The report must note any changes in the funding objectives since the previous report.
- 2.4.2 The implications of the funding objectives for the stability of contribution rates must be explained.
- 2.4.3 Where the scheme has more than one funding objective, comment must be made on the difference between the objectives.

## **2.5 Valuation Method and Assumptions**

- 2.5.1 The report must contain a summary of both the demographic assumptions and economic assumptions made, explicitly or implicitly, in valuing both the liabilities or target benefits, and the assets. The summary must include assumptions such as the exercise of material options by the members. A statement must be made as to the extent to which there have been changes to the assumptions used since the previous report.
- 2.5.2 The report must identify the mortality table(s) used in respect of pre- and post-retirement periods, in sufficient detail that another actuary could replicate the calculations and must state the life expectancy for a person reaching normal retirement age at the valuation date. The report must explain the assumptions made in relation to future mortality improvements and quantify the impact that these assumptions have on life expectancy for future cohorts of retirees.
- 2.5.3 The report must explain the method employed in developing the advice referred to in paragraphs 2.6.2 and 2.6.4 below and whether and in what way future entrants have been taken into account in the valuation. A note must be made of any changes to the method set out in the previous report.
- 2.5.4 The report must draw attention to those assumptions to which the valuation results are particularly sensitive. The actuary must describe how the valuation results (see section 2.6) will differ if these assumptions are not borne out so that the reader may understand the sensitivity of the results to the assumptions chosen. Various different approaches to illustrating sensitivity are possible, depending on the circumstances of the scheme. In some circumstances, it will be appropriate to identify events that may give rise to significant additional funding.
- 2.5.5 The report must confirm the compatibility of the basis of valuing the assets with that of valuing the liabilities or target benefits.

## **2.6 Valuation Results**

- 2.6.1 The report must state the value of assets, the value of accrued liabilities and the funding level on the basis being used for the current valuation. The report must also include an analysis of the actuarial surplus or funding level

compared with the position disclosed by the previous valuation. The analysis must be sufficient to identify the relative significance of the material items of actuarial gain or loss including changes in the valuation method and the valuation assumptions.

- 2.6.2 The report must recommend contributions consistent with the funding objectives for the period until the next formal actuarial valuation. Alternatively, if contributions are determined elsewhere, e.g. in governing documentation, so that a recommendation by the actuary is inappropriate, the report must include comment on the adequacy of the rate.
- 2.6.3 The level of detail in the report must be sufficient, in the normal course of events, to determine unambiguously the contributions that should be paid without further reference to the actuary. In particular the following must be considered:
- whether AVCs are excluded from the member contribution rate,
  - whether premiums for death benefit insurance are payable in addition to a fixed contribution rate,
  - whether expense payments are payable in addition to the fixed contribution rate,
  - the definition of pensionable payroll,
  - the timing and frequency of contributions, and
  - the effective dates of any changes to the contribution rate including changes effective from the valuation date.
- 2.6.4 The report must set out the future contributions that on the stated assumptions will be required to meet the stated funding objective over the longer term if these differ from the contributions recommended in accordance with paragraph 2.6.2.
- 2.6.5 References to contributions and contribution rates above or elsewhere in this Guidance Note are not intended to constrain the way future contributions are described.

## **2.7 Statutory Minimum Funding Standard**

- 2.7.1 In the case of a scheme subject to the statutory minimum funding standard, the report must state the amount of the statutory liabilities valued in accordance with GN3(ROI) and the statutory funding level (i.e. the proportion of the statutory liabilities that is covered by the assets of the scheme) at the valuation date, or the date of the most recent Actuarial Funding Certificate. The statutory liabilities and funding level must be stated separately for each priority class as specified in the Third Schedule of the Act. Where the previous

valuation complied with this requirement, the actuary must include the figures from the previous valuation in the report.

- 2.7.2 If the statutory funding level is less than 100% the actuary must provide an indication of the implications for the funding level over the period to the next actuarial valuation of anticipated changes in the statutory liabilities, in particular those associated with anticipated retirements.

## **2.8 Discontinuance Funding Level**

- 2.8.1 The liabilities that would arise in the event of an actual wind-up may be greater than the liabilities taken into account for the purpose of determining the statutory funding level. If this is the case, or if the scheme is not subject to the statutory minimum funding standard, the report must estimate the liabilities that would arise if the scheme were to wind up as at the date of the valuation and the proportion of such liabilities that would have been covered by the assets of the scheme at the valuation date (“the discontinuance funding level”).
- 2.8.2 If, for the purpose of calculating the statutory funding level and/or the discontinuance funding level, the liabilities in respect of active and deferred members have been valued on the assumption that such liabilities would be discharged by the payment of transfer values in the event of a wind-up, the report must point out that the value of the liabilities does not represent the cost required to buy out the accrued benefits on a guaranteed basis (i.e. by purchasing deferred annuities).

## **2.9 Investment Risk**

- 2.9.1 The report must include analysis of the scheme’s exposure to investment risk and the sensitivity of the funding position to future investment market changes.
- 2.9.2 Specifically, the actuary must:
- i. describe, in broad terms, the form and incidence of the scheme’s liabilities and the likely pattern of future cash flows
  - ii. explain the scope for variability in the recommended contributions referred to in section 2.6.2 and the funding level referred to in section 2.6.1, having regard to the assets held and the form and incidence of the liabilities
  - iii. indicate the contribution rate that would be required, and the relative level of variability in that contribution rate and the funding level, if the assets were invested in a mixture of fixed interest and index-linked bonds, rated at least AA, and the liabilities were valued accordingly.
- 2.9.3 Unless the funding level referred to in section 2.6.1 is the statutory minimum funding level, the actuary must also explain the scope for variability in the statutory minimum funding level, having regard to possible investment market changes and to the relationship between the assets held and the form and incidence of the statutory liabilities.

- 2.9.4 Regardless of whether the scope for variability in the statutory minimum funding level is explained under section 2.9.3(ii) or section 2.9.4, it must be illustrated by means of either scenario analysis, as described below, or an appropriate alternative methodology, such as stochastic analysis, showing a range and relative likelihood of different outcomes.
- 2.9.5 Scenario analysis would normally include the estimation of the statutory minimum funding level based on one or more scenarios, each involving a substantive shift in investment market conditions, with at least one scenario involving adverse changes in investment market conditions.
- 2.9.6 Attention must also be drawn to specific risks that are relevant to the scheme, in particular currency mismatching, concentration of assets, and self-investment. If the assets include derivatives, the actuary must consider the requirements of GN25(ROI).
- 2.9.7 The report must contain sufficient analysis to convey a reasonable understanding of the nature and extent of the investment risk. The actuary is, however, not required to give investment advice.
- 2.9.8 The requirements of section 2.9 may be met alternatively by appropriate references to a separate report dealing with investment risk that includes comparable information and analysis to that specified in sections 2.9.1 – 2.9.6, if such a report is available to the actuary, and he or she is satisfied as to its suitability, for this purpose. The report on investment risk must be appended in its entirety to the valuation report.