GN3(ROI): ACTUARIAL FUNDING CERTIFICATES UNDER THE PENSIONS ACT 1990 (as amended)

Classification

Practice Standard

Legislation or Authority

The Pensions Act 1990 and Regulations issued from time to time in relation to that Act.

Application

Any Actuary responsible for signing an Actuarial Funding Certificate under the Pensions Act 1990.

Version	**Effective from**
1.0	05.04.93

1. INTRODUCTION

1.1 The Pensions Act 1990 requires that

(i) 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 a certificate (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)fora scheme which commenced before 1st January 1991 the initialcertificate shall state the"certified percentage"(S42(3))

The Act specifies that a 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 expenses of winding up (S44).

Finally, the Act requires that "in completing an actuarial funding certificate, the actuary shall, in addition to complying with other relevant provisions of this part, have regard to such financial or other assumptions as he considers to be appropriate on the effective date of the certificate" (S46(1)).

It is important for actuaries to keep themselves informed on amendments to the Act that may occur from time to time. To date amendments have been incorporated in the Social Welfare Acts of 1991 and 1992.

1.2 These notes highlight the issues arising for actuaries in signing such certificates and, in particular, the considerations needed in the interpretation of the "financial and other assumptions" to be adopted.

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.

Some of the issues to be taken into account in this regard are listed in Part 3 of this note.

1.5 The Pensions Board has been made aware of the existence of this guidance note. It is intended to review it and to discuss it with the Board from time to time in the light of experience gained and of the Board's continuing responsibility under the Pensions Act 1990.

2. THE ACTUARIAL FUNDING CERTIFICATE

2.1 The importance of the actuarial funding certificates places a high level of responsibility on the profession. Any actuary, before signing a certificate, must consider carefully, in the light of his previous experience and work, whether doing so would be in line with proper professional behaviour and standards. Of prime importance to this consideration will be the period of time he has spent at a senior level working on Irish pension schemes and his experience of the detailed requirements of the Pensions Act 1990; it is the duty of any actuary who is in doubt as to his proper course of action to seek help from another actuary with relevant experience or from the Honorary Secretary of the Society of Actuaries in Ireland. It is emphasised, however, that the responsibility for signing the certificate is his and his 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 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.

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 only requirement in the Act is that the effective date of the initial certificate must be not more than 3 years from the 1st January 1991 for a scheme which commenced prior to that date, or not more than 3.5 years after the commencement date of the scheme for a scheme which commenced after that date; second and subsequent certificates must have an effective date not more than 3.5 years after the effective date of the immediately preceding certificate.

2.4 The following should be noted in relation to the actuarial funding certificates prescribed by the Minister for Social Welfare under Section 42(4) of the Act:

(a) The "First Actuarial Funding Certificate" is only relevant in respect of a scheme which commenced before 1st January 1991. All other schemes should use the "Actuarial Funding Certificate".

(b) The 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 to certify that the scheme satisfies/does not satisfy the funding standard.

(c) In relation to the "First Actuarial Funding Certificate" the actuary must state the certified percentage which is the percentage of benefits that in his opinion could have been provided from the resources of the scheme etc. as detailed under Section 45. This section also highlights that different categories of membership may have different certified percentages.

(d) The certificate does not set out the benefits taken into account by the actuary in completing this certificate nor do the second and subsequent certificates even specify the certified percentage. To reduce the possibility of the certificate being misinterpreted by trustees and/or members the Pensions Board, on the advice of the Society, have included a note on the reverse of the certificate for completion by the actuary. While the note does not form part of the certificate it is recommended that the actuary completes this note and recommends to the trustees that it should be published with and appended to the certificate in the trustees' annual report. The actuary may add such other notes as he feels are appropriate.

(e) A copy of the latest certificate must be included in the trustees' annual report to scheme members in accordance with the disclosure regulations.

2.5 The meaning which the 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 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 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) refer in sub-paragraph (ii) to the "long service benefits" which are defined in Part I of the Act.

If the actuary is in doubt as to the interpretation of the winding up rule (or any other relevant rules) of the scheme, appropriate advice should be sought before the certificate is signed.

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 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 Act, to the payment to another scheme or to the purchase of approved contracts e.g. buy-out bonds. The Act does not compel the actuary to adopt this approach.

2.9 The 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.

2.10. If the assets of the fund take the form of insurance policies the actuary should have regard to the practice of the office in terminating such policies and, where appropriate, the realisable value of such policies.

2.11 For the purposes of the funding standard, the liabilities at the effective date must represent the value placed by the actuary on the benefits outlined in Section 44(a) of the Pensions Act 1990.