

# **APS1: Pension Schemes - Actuarial Valuation Reports**

## **1 Introduction**

- 1.1 Actuarial Practice Standard 1 (APS1) is the required standard of practice for all Actuaries who are members of the Caribbean Actuarial Association (CAA) giving advice on retirement benefit schemes in operation in the Caribbean.
- 1.2 For the purposes of this Standard, an “Actuary” is defined in the CAA Codes of Conduct.
- 1.3 APS1 sets out, inter alia, the minimum information that should be contained in an actuarial valuation report of a pension scheme.
- 1.4 APS1 applies to all members responsible for preparing a formal actuarial valuation report on funding of a retirement benefit scheme either when the scheme is being established or at intervals thereafter when an actuarial valuation is to be prepared.
- 1.5 This Practice Standard applies to all formal actuarial valuation reports which are required by the Trust Deed and Rules of the scheme (or other legal document) or by legislation or are specifically requested by the Actuary’s client.
- 1.6 The Actuary is encouraged to remind the trustees or managers appropriately when valuations are due, and should comply with any legislation over the production of the report.
- 1.7 Generally the report should be in the hands of the Actuary’s client within one year of the effective date of the valuation or such other period as required by any applicable legislation. If the report is completed after the period specified then the Actuary should state the reason for the delay in the preparation of the report.
- 1.8 Where the Actuary becomes aware of an event, which under the Trust Deed and Rules or legislation commences a discontinuance procedure, this Practice Standard continues to apply and the Actuary should advise the trustees whether it is appropriate for an actuarial valuation to be carried out.

## **2 Purpose of the Standard**

- 2.1 The purpose of the Practice Standard is to ensure that reports contain sufficient information to enable the current funding level of a scheme to be understood and also, to enable the expected future course of a scheme’s contribution rates and expected benefit levels to be understood. In addition, in the case of a defined contribution scheme, the report should provide sufficient information so that the expected levels of projected retirement benefits can be appreciated. It is not intended to restrict the Actuary’s freedom of judgement in choosing the method of valuation and the underlying assumptions.

- 2.2 Although any report will be addressed to the Actuary's client (normally the trustees but in some circumstances the employer) the Actuary needs to bear in mind that the advice may be made available to third parties who can reasonably be expected to rely on it.

### **3 The Report**

#### **3.1 Introduction**

- 3.1.1 The items in 3.2 to 3.10 below, except where otherwise indicated, are regarded as essential components of a report. Other information may often be desirable and suitable explanations of some features may be very important, for example the effect on the funding level of an improvement in benefits with retroactive effect.
- 3.1.2 The report should be in writing. 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 clear in the preliminary report that it does not conform to APS1 but that the further (full formal) report will do so.

#### **3.2 Basic Information**

- 3.2.1 The report should make it clear to whom it is directed, by specifying the client. This will normally be the trustees of a trust-based scheme but in some circumstances will be the employer or both, jointly. An opening statement should 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.
- 3.2.2 It is desirable that the opening statement should also refer to the appropriate sections of the Trust Deed and Rules (or other legal document) of a scheme under which the valuation is being made.
- 3.2.3 The report should include a statement of the benefits which have been valued (for example, by a summary of the terms of a scheme or by reference to appropriate documents). Reference should 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.
- 3.2.4 The report should include a brief but clear description of the membership and financial data on which the investigation is based, including a description of the assets. If the Actuary has relied on information or opinions provided by others, he should carry out appropriate investigations to assess the accuracy and reasonableness of the data being used. If the Actuary has any reservations as to the reliability of the data, such explanation or qualification as appropriate should be given. In particular, if audited accounts as at the date of valuation are not available, this fact should be stated in the report.
- 3.2.5 Reference should also be made to any insurance arrangements in place for the benefit of the scheme, for example, group life assurance held by trustees.
- 3.2.6 In the case of a scheme in discontinuance, there should be a statement of when benefits ceased to accrue.

### **3.3 *Inter-valuation Period***

3.3.1 The report should include a statement of the rates of contributions due and paid during the inter-valuation period; a commentary on any material development in the scheme during that period; and an analysis of the change in the surplus position during the period.

### **3.4 *Funding Objectives***

3.4.1 In the case of a defined benefit scheme or otherwise, where appropriate, the report should explain the funding objectives and the method being employed to achieve those objectives. A statement should be made as to the extent to which there have been changes in the objectives or the method since the last report of a similar nature. Implications in terms of stability of contribution rates, emerging benefits and of future funding levels should be explained.

### **3.5 *Valuation Assumptions and Methods***

3.5.1 The report should contain a statement of both the demographic and economic assumptions made, explicitly or implicitly, and what allowance has been made for future expenses, in valuing both the liabilities and the assets and, in the case of a defined benefit scheme, the method employed in deriving the contribution rates in paragraph 3.6.1 below. The actuary should justify his choice of assumptions. Attention should be directed particularly to those assumptions to which the contribution rate is sensitive. A statement should be made as to the extent to which there have been changes to the assumptions used since the last report of a similar nature. Assumptions should be prudent and long-term in nature. The report should include a statement of opinion by the actuary on all of these issues.

3.5.2 Where appropriate, the report should state whether and in what way future entrants have been taken into account in the valuation.

3.5.3 The report should explain how surplus is to be utilised or the deficiency is to be addressed.

3.5.4 If the scheme has a statement of investment principles then the report should include a summary of these principles and the Actuary must state if in his opinion they are not appropriate. In particular, the Actuary should comment on any notable or particular risks in the investment strategy of a scheme relative to the form and incidence of the liabilities. Where relevant attention should be drawn to such aspects as concentration of assets, levels of self-investment, and mismatching.

### **3.6 *Current Funding Level - On-going Assumption***

3.6.1 For an ongoing scheme, the report should include a statement as to the funding position on the assumption that both scheme and the scheme sponsor(s) are on-going. The statement should include, where relevant, a comparison between assets and accrued liabilities, the latter with pensionable salaries projected where appropriate to assumed end of pensionable service, if this is not otherwise conveyed by the comments on the funding objectives and the contribution rate.

### **3.7 *Current Funding Level – Winding-up (or Discontinuance) Basis***

- 3.7.1 The purpose of the statement on this subject is to give an indication of the accrued solvency position of a scheme to be wound-up or discontinued at the valuation date. The actuary should adopt an approach with that principle in mind.
- 3.7.2 The Actuary should indicate in the report whether there would be sufficient funds available to secure all of the accrued benefits at the valuation date should the scheme be wound-up at that date. If the assets were not sufficient, the report must indicate the level of coverage. For this calculation, the assets should be valued at expected realisable value and liabilities in respect of active service members and deferred pensioners must be based on an estimate of the cost of deferred annuities (by purchase or otherwise). For pensioners (and contingent pensioners) an estimate of the cost of immediate annuities (by purchase or otherwise) will normally be appropriate.
- 3.7.3 Where appropriate, under 3.7.2, it should be pointed out that the value of the liabilities may not represent the cost required to secure the liabilities of a scheme were the scheme to be wound-up as at the date of the valuation.

### **3.8 *Contribution Rate and Emerging Benefits***

- 3.8.1 In the case of a defined benefit scheme, the report should recommend appropriate contributions for the period until the next anticipated formal actuarial valuation consistent with the funding objectives. If appropriate, the actuary may recommend different contribution rates for different groups of members or different contribution rates payable for different intervals in the period to such a valuation. Alternatively, if the contribution rate is determined elsewhere, e.g. in governing documentation, so that a recommendation by the Actuary is inappropriate, the report should include a comment on the adequacy of the rate.
- 3.8.2 The report should also address the issue of the expected future course of a scheme's contribution rates in the longer term on the methodology and assumptions of the valuation.
- 3.8.3 In the case of a defined contribution scheme, the report should include the results of the calculations of the expected members' pension benefits as a percentage of the pensionable salaries at retirement for all or some of the members of the scheme projected on the basis of prudent assumptions.

### **3.9 Reconciliation**

- 3.9.1 A reconciliation of the valuation should be made with the position disclosed by the previous valuation, and a statement included in the report either describing or quantifying the financially material items of actuarial gain or loss, including changes in the valuation method and of the valuation assumptions.

### **3.10 General**

- 3.10.1 A statement should be made in the report whether the valuation has been prepared in accordance with APS1 current at the effective date of the valuation report.

3.10.2 There should be a statement indicating any departures from APS1. The Actuary is expected to comply with APS1, unless the Actuary is convinced that full compliance would be inappropriate, in which case a complete explanation and justification of all departures should be given.