



TO: Members of the CAA

FROM: Neil Dingwall, Chairman, CAA Standards Steering Committee

SUBJECT: Actuarial Practice Standard No. 1 – Pension Schemes – Actuarial Valuation Reports

DATE: May 27th, 2011

At the 2010 Caribbean Actuarial Association Annual Meeting, Council approved the development of a comprehensive set of Actuarial Standards that will apply to work performed in the Caribbean region. The objectives of the project were outlined as follows:-

- Caribbean Actuarial Standards will become the Caribbean Standard.
- That the Caribbean Actuarial Standards will be consistent with International Actuarial Standards.

The overriding purpose of CAA Practice Standards is to serve the public interest by ensuring that the users of actuarial services in the Caribbean benefit from a high quality of actuarial work. An additional motivation has come from the regulators in the region who have expressed a desire for the C.A.A. to take an active role. As a profession, self-governance and self-regulation should be our preference.

In accordance with due process, Council appointed a CAA Standards Steering Committee to produce the Standards. The CAA Standards Steering Committee has divided the project into various segments, some of which are able to run concurrently and some which will need to be sequential. The drafting work has been performed by the Practice Committees and we are now in a position to expose a number of new and revised standards to the membership.

We expect to be circulating the following documents:

1. A background paper on the planned Actuarial Standards Architecture
2. Pension Revised APS 1
3. Social Insurance New APS 3
4. Non-Life Insurance New APS 4
5. The Life insurance Committee will be releasing the results of their Discount Rate survey in preparation for the development of a separate standard on this issue

Attached is the first Exposure Draft of the revisions to Actuarial Practice Standard (APS) 1. This

Standard covers the production of Actuarial Valuation Reports for Pension Schemes. APS1 is a technical/communication standard and sets out, inter alia, the minimum information that should be contained in a report on an actuarial valuation of a pension fund. In the context of the Actuarial Standards Architecture, this Standard is designed to cover solvency, funding and funding communication- additional standards are under consideration for the remaining areas e.g. transfer values.

Also included is the Actuarial Standards Architecture background paper.

The major revision to APS1 is contained in section 3.7 and indicates that the report should include a section on the solvency position at the valuation date. This replaces section 3.7 of the current version and provides much more detail on how the solvency valuation should be carried out. In addition, there is a more detailed section on the application of APS1. There are many other minor changes to APS1 to make it much clearer to the user.

In commenting on and reviewing the attached Exposure Draft, we would ask that, as far as is practicable, you follow the instructions in appendix 1 of this memo. Also, it would be of benefit to the committee, if you could answer the questions contained in Appendix 2.

It is planned to hold sessions at the Annual meeting to allow for further discussion and allow the Practice Committees to report both the comments received and what further amendments they would recommend in making their recommendation for adoption by Council at their meeting.

The CAA due process for the approval of new standards requires an initial six month exposure period. This period will expire no later than November 30, 2011. Notwithstanding this the steering committee would appreciate it if all respondents would endeavor to provide feedback by **September 30, 2011** to facilitate a consolidated review of all comments.

The standard is expected to be required practice when it has completed its due process and has been approved by the membership in December 2012.

Comments, suggestions, recommendations for amendments and any other feedback on APS1 should be submitted by email to the chair of the Pensions sub-committee, Astor Duggan (astorduggan@cwjamaica.com).

The Steering Committee looks forward to communication with the members and with other interested parties, who wish to raise issues of concern throughout this process.

Neil Dingwall.

Appendix 1: Instructions for Commenting

1. The deadline for official submission of comments is six months from the date of circulation of this memo but please attempt to submit by the voluntary date of **September 30, 2011**.
2. The draft has been circulated in Microsoft Word format in a two column layout. Please insert your comments in line with the relevant paragraph in the second column.
3. Unless necessary, please do not use Microsoft Word's "Track Changes" features to indicate your changes.
4. As part of the review process, your comments may be shared with the wider membership but individual views will not be identified with any specific member.
5. Submissions specific to the standard should be emailed to the relevant sub-committee chair as outlined in the memo.
6. Any comments on the overall approach or related to the CAA's due process can be addressed to the Chair of the CAA Standards Steering committee, Neil@dingwall.com.
7. Please include a completed version of Appendix 2 with your submission.

Appendix 2: Questions for the Membership

Q1: Does the draft standard provide adequate and appropriate guidance?

Q2: Are there any definitions that you would like revised or are there any other additional words or terms that you think should be defined in Section 2?

Q3: Is there any additional guidance that you would like to see included?

Q4: Is there any aspect of the standard that you consider inappropriate or unnecessary?

Q5: Do you broadly agree with the decision of Council to make the CAA the standard setting body for the Caribbean as outlined in the “Standards Architecture” document?

Q6: Is there any specific additional area that you would like to see the CAA consider producing standards for?



**Preliminary Exposure Draft
Modification of Existing Standard**

**Caribbean Actuarial Association
Standard of Practice**

APS1: Pension Schemes – Actuarial Valuation Reports

**A Preliminary Exposure Draft of the
Committee on Actuarial Standards of the CAA**

Distributed on May 29, 2011

Comments to be sent to astorduggan@cwjamaica.com by November 30, 2011

APSI : Actuarial Valuation Reports

Comments

Table of Contents

1 Scope, application and effective date.....2

2 Definitions.....4

Recommended Practices5

3 The Report5

 3.1 Introduction.....5

 3.2 Basic Information.....7

 3.3 Inter-valuation Period8

 3.4 Funding Objectives9

 3.5 Valuation Assumptions and Methods9

 3.6 Current Funding Level - On-going Assumption.....11

 3.7 Current Funding Level – Winding-up (or Discontinuance) Basis12

 3.8 Contribution Rate and Emerging Benefits15

 3.9 Reconciliation16

 3.10 General.....16

APS1 : Actuarial Valuation Reports

Comments

1 Scope, application and effective date

- 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 the valuation of retirement benefit schemes in operation in the Caribbean.
- 1.2 APS1 sets out, inter alia, the minimum information that should be contained in a report on an actuarial valuation of retirement benefit scheme
- 1.3 APS1 applies to any Actuary 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. It 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.
- 1.4 APS 1 continues to apply while a scheme is run as a closed fund. Where an

APS1 : Actuarial Valuation Reports

Comments

event occurs which under a scheme's Trust Deed and Rules triggers a discontinuance procedure, the Actuary should consider whether it would be appropriate to advise the client that an actuarial valuation should be carried out. APS1 continues to apply where a scheme has commenced winding-up, although in such circumstances some parts might not be applicable.

- 1.5 APS1 does not generally apply to defined contribution schemes. However, it should be applied to such schemes if the advice given is on the contributions to meet a particular level of benefit (other than lump sum death benefits) with the phrase "target benefits" being substituted for "liabilities" where appropriate.
- 1.6 APS1 does not apply to calculations of pension expense for employer's accounts or to an actuarial valuation report on the funding of a social security scheme.
- 1.7 The purpose of APS1 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 solvency level to be understood. The guidance does not in itself seek to restrict the Actuary's

APS1 : Actuarial Valuation Reports

Comments

freedom of judgement in choosing the method of valuation and the underlying assumptions but seeks to ensure that sufficient explanation is given of the methods and assumptions used. 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.

- 1.8 This Practice Standard was approved by the Council of the Caribbean Actuarial Association on Month Day, Year to become effective for the valuation period beginning on or after Month Day, Year.

2 Definitions

- 2.1 For the purposes of APS1, an “Actuary” is defined in the CAA Code of Conduct.
- 2.2 For the purposes of APS1, “A defined contribution scheme is a pension scheme in which:
- the employer pays a fixed contribution into the scheme and has no legal or constructive obligation to pay further contributions into the scheme in relation to past periods of service; and

APSI : Actuarial Valuation Reports

Comments

- the total investment earnings on the assets backing the members' accounts are credited to their accounts by means of unitisation or otherwise; and
- each member's benefit is based solely on the value of his account which is made up of contributions paid by and/or on behalf of the member plus investment earnings as well as any other components which may arise from forfeitures or transfer payments; and
- on retirement, the risk of paying the pension is transferred to an insurance company by purchasing annuities.”

Recommended Practices

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.

APS1 : Actuarial Valuation Reports

Comments

- 3.1.2 The report must 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 submitted, it should be clear in the preliminary report that it does not conform to APS1 but that the further (full formal) report will do so.
- 3.1.3 The Actuary is encouraged to remind the client when valuations are due, and should comply with any relevant legislation over the production of the report. Generally the completed and signed 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 or by the client. 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.
- 3.1.4 Although any report will be addressed to the Actuary's client, 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, including in particular any relevant regulatory authority. Any limitations on the extent to which third parties can rely on the advice should be set out in the report.

APSI : Actuarial Valuation Reports

Comments

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. The report 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. The report should also name the Actuary or Actuaries who carried out the previous valuation.
- 3.2.2 It is desirable that the report should 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 and, if relevant, to the legal or regulatory requirement under which the valuation is being carried out.
- 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 the scheme or by reference to appropriate documents). Reference should be made to the extent to which allowance has been made for discretionary increases in benefits (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

APSI : Actuarial Valuation Reports

Comments

benefits, such as additional voluntary contributions and pensions secured by annuities, the report should note these exclusions.

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, the Actuary 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 or annuities purchased in respect of pensions in payment or in deferment.

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

APSI : Actuarial Valuation Reports

Comments

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 on any significant changes in experience from the assumptions made at the previous valuation

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 and of future funding levels should be explained.

3.5 Valuation Assumptions and Methods

APSI : Actuarial Valuation Reports

Comments

- 3.5.1 The report should contain a summary of the demographic and economic assumptions made, explicitly or implicitly, including what allowance has been made for future expenses, in valuing both the liabilities and the assets. A statement should be made as to the extent to which there have been changes to the assumptions used since the previous report. The report should include a statement of opinion by the Actuary on the prudence and appropriateness of the assumptions used.
- 3.5.2 The attention of the client should be directed to those assumptions to which the valuation results are particularly sensitive, such as discount rates and future rates of mortality. The Actuary should describe or illustrate how the results of 3.6 and 3.8 below will differ if the assumptions are not borne out so that the client 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.
- 3.5.3 The report should explain the method employed in deriving the contribution rates in paragraph 4.8.1 below. Where appropriate, the report should state whether and in what way future entrants have been taken into account in the valuation. A note should be made of any changes in the method set out in the

APSI : Actuarial Valuation Reports

Comments

previous report.

3.5.4 The description of the funding method in 3.5.3 above, when taken with the assumptions summarised in 3.5.1, should be sufficiently detailed so that it would not result in a different actuary producing valuation results which the original Actuary considers to be materially different from the results in the report.

3.5.5 If the scheme has a statement of investment policy then the Actuary should state whether, in his opinion, it is appropriate or not. In particular, the Actuary should comment on any notable or particular risks in the investment strategy of a scheme relative to the nature and expected future incidence of the liabilities. Where relevant attention should be drawn to such aspects as concentration of assets, levels of self-investment and mismatching. The Actuary is not required to give investment advice.

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 employer(s) are going concerns and that the employer continues to support the scheme. The statement

APSI : Actuarial Valuation Reports

Comments

should include, where relevant, a comparison between assets and accrued liabilities, the latter with pensionable salaries projected where appropriate to the 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 report should provide an estimate of the proportion of the accrued rights and entitlements that would have been covered by the assets of the scheme at the valuation date. This estimate should be on the basis set out in 3.7.3 to 3.7.6 below.
- 3.7.2 Where the estimated proportion in 3.7.1 is less than 100%, the Actuary should quantify approximately (on this basis) the impact of the applicable priority order on different categories of benefit, had the scheme been wound up on the valuation date.
- 3.7.3 For the purpose of the estimate under 3.7.1, the assets of the scheme should be taken at not more than market value and the accrued rights and entitlements should be valued as described in 3.7.4 to 3.7.6 below.

APS1 : Actuarial Valuation Reports

Comments

- 3.7.4 The Actuary should estimate the value of accrued rights and entitlements as the cost of buying out the benefits at the valuation date with a suitable insurance company using those principles likely to be adopted by insurance companies for determining buy-out costs. The Actuary should explain the method used and disclose each assumption that he or she considers material to the final result.
- 3.7.5 The Actuary should include a realistic allowance for the expenses of wind-up. This allowance for expenses should be disclosed.
- 3.7.6 The report should note that the estimate under 3.7.1 is a guide, that market changes both in interest rates and in demand and supply for this type of business mean that no one estimate can be relied on, and that ultimately, the actual true position can only be established by completing a buy-out. (The exception to this is where the benefits are being bought out and the figures are based on a guaranteed quotation.)
- 3.7.7 Where the previous valuation contained an estimate of solvency, the Actuary should include the figures from the previous valuation in the report and give an explanation of the difference between the surplus or deficit on the solvency basis at this valuation and that at the previous valuation except where the scheme's solvency level changes from above 100% to below 100% or vice versa the

APSI : Actuarial Valuation Reports

Comments

Actuary should provide a numerical analysis of this change.

- 3.7.8 The Actuary should comment on the effect that the contributions referred to in 3.8.1 are expected to have on the proportion of accrued rights and entitlements in each priority class that will be covered by the assets. This analysis should cover at least the three years following the valuation date and should in particular include an estimate of the coverage at the next valuation. The degree of detail and the extent to which the effects are quantified are for the Actuary to judge, in accordance with his or her view as to the materiality of this information and to the understanding of the risks to members' wind-up benefits associated with the expected pattern of contributions. The Actuary should also comment where he or she considers it likely that the coverage for any priority class will vary materially during the period between this valuation and the next. The Actuary should state the assumptions used in making the assessments in this section.
- 3.7.9 If the contributions in 3.8.1 are not expected at least to maintain the solvency coverage for all members, this fact should be explicitly and prominently stated in the report.

APSI : Actuarial Valuation Reports

Comments

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 impact of the expected future funding of the scheme in the longer term on the methodology and assumptions used for 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 using the assumptions in 3.5.1.

APS1 : Actuarial Valuation Reports

Comments

3.9 Reconciliation

3.9.1 A reconciliation of the surplus or funding level disclosed in the current 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 must be made in the report as to whether the valuation has been prepared in accordance with APS1 current at the effective date of the valuation report.

3.10.2 There must 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 must be given.