Institute of Actuaries of India

APS 18: Retirement Benefit Schemes - Actuarial Reports

Classification: Practice standard.

Legislation or Authority

Professional conduct standards (PCS, version 3.00)

Application

Any actuary responsible for preparing a formal actuarial report on funding (or where funding is covered) when a retirement benefits scheme is set up, or at intervals thereafter when an actuarial valuation is to be conducted for funding or in connection with funding, report required under accounting standard such as AS15, IAS 19 or FAS 87 and similar. This APS shall also apply whether the Actuary is working in the capacity of a consultant to a client or is employed by the client or working in the capacity of a consultant to an insurer in respect of client of the insurer or is employed by an insurer to provide such actuarial report in respect of clients of the insurer.

In relation to defined contribution schemes, this Actuarial Practice Standard should apply if the advice given is on the funding required to meet a level of benefit (other than lump sum death benefits) or on the benefits the funds will support, but not otherwise.

Author

Pensions and Social Security Board.

Compliance:

Members are reminded that they must always comply with the Professional Conduct Standards (PCS) and that Actuarial Practice Standards impose additional requirements under specific circumstances.

Status

This Actuarial Practice Standard shall constitute a practice standard on professional matters within the meaning of Rule29 (ℓ) of the Rules of the Society and has been authorized to be issued by the Executive Committee in its meeting held on 14 02 2005.

Version:

1.00	Applicable for all actuarial reports carried out on and after 01 04 2005
1.01	Effective from 01 01 2012

1 Introduction

1.1 This Actuarial Practice Standard applies to all formal actuarial valuation reports which are required by the scheme governing documentations such as Trust Deed and Scheme Rules or by legislation or are specifically requested by the actuary's client.

1.2 In the case of schemes, and not withstanding any longer intervals permitted by the scheme documentation, the actuary should encourage trustees or managers to have valuations done at annual intervals.

1.3 Generally the report should be addressed to the client, e.g. board of Trustees or employer as settler of Trust, or an organization as creator of a scheme/fund and there should exist a contractual relationship between the actuary and such client based on fee to be charged for the related work. Consequently all such actuarial reports are confidential in nature between the actuary and actuary's client.

1.4 Where an event occurs which under the Trust Deed and Rules commences a discontinuance procedure, this Actuarial Practice Standard continues to apply and the actuary should consider whether it would be appropriate to advise the trustees that an actuarial valuation should be carried out.

2 Objectives of this Guidance

2.1 The objectives of this Actuarial Practice Standard is to ensure that reports contain sufficient information to enable the current funding level of a scheme to be understood and also, in the case of a defined benefit scheme, to enable the expected future course of a scheme's contribution rates to be understood. It is not intended to restrict the actuary's freedom of judgment in choosing the method of valuation and the underlying assumptions.

2.2 Although in accordance with Para 1.3 of this Actuarial Practice Standard, 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, for example, the auditors of the Trust Fund or of the employer, or in case of any dispute, to legal advisors. The actuary therefore should expressly state in the report his/her understanding of this situation.

3 The Report

3.1 **Introduction**

3.1.1 The items in 3.2 to 3.10 below, except where otherwise indicated, are normally 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 made clear in the preliminary report that it does not conform to APS 18 in full but that the further 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 legal documentation of a scheme under which the valuation is being made, such as requirements of EPS 95 or any other legislation, accounting standards such as AS 15, IAS 19 or FAS 87 and similar..

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 appropriateness 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 relevant and are not available, this fact should be stated.

3.2.5 Reference should also be made to any insurance arrangements in place for the benefit of the scheme or any insolvency insurance. This would include, 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 If the report is in connection with funding then the report should include a statement of the rates of contribution due during the inter-valuation period; and a commentary on any material developments in the scheme during that period, and on any significant variations in experience from the assumptions made at the previous valuation.

3.3.2 In the case of a defined contribution scheme, there need only be a statement of the rates of contributions due.

3.4 **Funding Objectives**

3.4.1 In the case of a defined benefit scheme, 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**

3.5.1 The report should contain a statement of both the demographic and economic assumptions made explicitly in valuing both the liabilities and the assets, if required and, in the case of a defined benefit scheme, the method employed in deriving the contribution rate in paragraph 3.6.1 below. 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.

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 comment on the compatibility of the basis of valuing the assets with that of valuing the liabilities, whether value of assets is provided to the actuary or has been valued by the actuary himself/herself. The actuary should also comment on any notable or particular risks in the investment strategy of a scheme relative to the form and incidence of the liabilities. The actuary is encouraged to comment on the sensitivity of the funding to future investment market changes. Where relevant, attention should be drawn to such aspects as concentration of assets, levels of self-investment, and currency mismatching.

3.6 **Contribution Rate**

3.6.1 In the case of a defined benefit scheme, the report should recommend appropriate contributions consistent with the funding objectives for the period until the next anticipated formal actuarial valuation. 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 not required, the report should include comment on the adequacy of the rate.

3.6.2 The report should also address the issue of the expected future course of a scheme's contribution rates in the longer term on current methodology and assumptions, e.g. for period beyond 10 years.

3.7 **Current Funding Level - Discontinuance Assumption**

3.7.1 The purpose of the statement on this subject is to give an opinion on of the accrued solvency position of a scheme in discontinuance or were the scheme to become a scheme in discontinuance at the valuation date and, in particular, if there were no further contributions due from the scheme sponsor. The actuary should adopt an approach with that principle in mind. There could however be exception to these provisions where by law the discontinuance event is not likely to happen.

3.7.2 The report should state whether or not, in the actuary's opinion, the assets would have been sufficient at the valuation date to cover liabilities arising (including any dependants' contingent benefits) in respect of pensions in payment, preserved benefits for members whose pensionable service has ceased and accrued benefits for members in pensionable service, the last of which will normally be related to pensionable service to, and pensionable earnings at, the date of valuation including revaluation on the statutory basis, if any (or on such higher basis as has been promised). If the assets were not sufficient, the report should state the level of coverage.

3.8 **Current Funding Level - On-going Assumption**

3.8.1 If the scheme is not already in discontinuance, 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.

3.9 **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 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 this APS and also whether provisions of any other APS have impacted the actuarial report.

3.10.2 There should be a statement indicating any departures from this APS. The actuary is expected to comply with this APS, 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 in the Actuarial report itself.

4. Applicability of other APSs

4.1 This APS should be applied in consonance with **GN11: Actuarial Investigations of Retirement Benefit Schemes**. However, in case of any conflicting provisions, provisions of this APS shall supersede.

4.2 While determining the valuation assumptions, it is expected that provisions of **APS12: Investigations of Retirement Benefit Schemes: Choice of Actuarial Assumptions for the Actuarial Valuations Required Under Accounting Standard 15 (AS 15),** shall apply. However the circumstances under which such application is thought inappropriate by the Actuary, the same should be specifically stated in the report.