



**Reference:**

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Dear Dave

**IAA – Exposure draft of an international standard of actuarial practice (ISAP) on the valuation of social security programs**

The Government Actuary's Department (GAD) is pleased to provide comments on the exposure draft of ISAP nn – Valuation of Social Security Programs.

We have shared our comments with the Financial Reporting Council (FRC) and the UK Actuarial Profession. We have seen a copy of the final submission by the FRC and agree with its contents.

The statutory responsibilities of the Government Actuary include preparing yearly and five-yearly reports on the operation of certain aspects of the UK's social security system including the current and projected financial position of the National Insurance Funds. Most if not all actuarial work relating to the UK's social security system is carried out by actuaries employed by GAD. GAD also provides actuarial advice including carrying out actuarial valuations to a number social security schemes around the world, including countries close to the UK such as the Isle of Man, Jersey and Guernsey and countries which are further away, including Rwanda, Ghana, Saudi Arabia and Zambia.

As the actuarial standards published by the FRC do not cover social security schemes we apply the existing IAA standard on social security and also our own Principles of Actuarial Quality to our social security related work.

We have two main comments on the exposure draft. As the FRC's detailed comments cover the points that we would have made, we have not included any further detailed comments on the exposure draft.

1. The proposed standard is too prescriptive in that it mandates things which the IAA cannot know will be the right things of detail for every country. There are differences in approaches to funding (or not) and which benefits are provided and how to name just two

differences. For some countries, it would be wrong to include everything listed in the draft standard in a report and for others, more items not mentioned will be appropriate. Therefore, the key issue is for the actuary to have clarity as to who his client is, what the purpose of the “valuation” is and the client instructions. Some clients will be country Government, some will be ILO, some will be local agencies or world funding agencies etc. Each may have a different purpose and different culture on disclosure. Against this background it would be wrong to assume that the levels of work and disclosures should be the same for all. We would therefore favour sticking to some high level principles as the only practical way through. Thus the guidance could have a list of items for consideration for inclusion in the work programme and the report and include some mandatory statements about not producing reports that are misleading or include any falsehoods combined with ensuring enough (correct) information is provided to avoid wrong decisions. This will mean a significant shift from using “should” to using “may”. To do otherwise the IAA could seem to be showing arrogance of knowing exactly what is required in every single country and for every different type of institution involved in the social security arrangements of individual countries.

2. The exposure draft refers in its title to ‘Valuations of Social Security Programs’ (SSP) and in section 2 (Definitions) a valuation is defined as “any formal analysis of an SSP...” although the term ‘formal analysis’ is not defined. However, section 4.2 states that the actuary should provide an opinion with respect to data, assumptions, methodology and the financial sustainability of the SSP. In our experience, actuaries can carry out work for SSP’s which could be considered formal but which would not require an opinion on all of data, assumptions, methodology and the financial sustainability of the SSP. For example:

- > The actuary may be asked to carry out assessments of the impact of making changes to the rules of the SSP
- > The actuary may be asked to carry out a sensitivity test of using a revised population projection while keeping all other assumptions the same
- > The actuary may be asked to assess the value for money of increases in state pension on deferral of when a person decides to take the state pension

We would therefore suggest that the scope of the ISAP is widened to cover all work carried out by actuaries in relation to SSPs but that the requirements regarding reporting of data, assumptions, methodology, results and uncertainty are commensurate with the purpose for which the actuarial work has been carried out.

I would be happy to discuss our comments with you or your colleagues on the Social Security Task Force if you would find that helpful.

Yours sincerely



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Chief Actuary, Insurance and Social Security