

Institute of Actuaries of India

Actuarial Practice Standard (APS) 14: Illustrations of Defined Contribution Pension Scheme Benefits

Classification: Practice Standard

Legislation or Authority:

1. Professional Conduct Standard (PCS, version 3.00)
2. IAA International Actuarial Standards of Practice: Currently there is no applicable IAA standard of Practice

Application:

Any actuary providing an illustration of defined contribution benefits (including defined contribution underpins and target benefit arrangements) provided by a pension scheme. Pension schemes for this purpose include approved and unapproved schemes (under Income Tax Act, 1961 in India or any other Regulatory regime), stakeholder pensions in UK, personal pensions and additional voluntary contribution arrangements. Illustrations of benefits provided during an income draw down period are also covered.

Author: Pensions and Social Security Board (PSB)

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 Rule 29 (e) 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 refers to illustrations but should be understood to cover any projection of defined contribution pension scheme benefits.
- 1.2 The Actuarial Practice Standard covers all illustrations including those that will be issued to scheme members and those not related to specific individuals such as those provided to the press and thence used to advise the general public.

2. Objectives:

- 2.1 To ensure that appropriate illustrations are made and sufficient information is given to enable the recipient to appreciate the risks involved in a defined contribution arrangement.
- 2.2 To enable the Fellow member of IAI (the Actuary), to be clear about the purpose of the illustration and the nature of any benefit promise.

3. Actuary's Responsibility:

- 3.1 The actuary should be satisfied that, in his or her opinion, the illustrations are meaningful and realistic for individual members at all relevant ages.
- 3.2 The assumptions used should be consistent and reasonable keeping in view the provisions contained in other Actuarial Practice Standards relevant to the illustrations under the defined contribution pension schemes.
- 3.3 Existing assets and future contributions (if any) taken into account in the illustration should be measured on basis consistent with the assumptions used.
- 3.4 The actuary should describe or illustrate how the result will differ if the assumptions used are not borne out.
- 3.5 The actuary should describe or illustrate how income draw down benefits will differ if the assumptions used (including annuity purchase rates) are not borne out.
- 3.6 If the illustration shows different investment returns for different categories of investment, the relative risks of these different classes of investment should be explained.
- 3.7 Benefit illustrations may be in real or monetary terms. For illustrations in monetary terms, an explanation of how the illustrated benefits should be adjusted to allow for inflation should be provided.
- 3.8 Administrative expenses charged to a scheme member's account, if any should be taken into account.

4. Report:

- 4.1 The actuary should use his or her best endeavours to ensure that the illustration is presented to the ultimate recipient in a complete and balanced way.
- 4.2 If a specific calculation method (that is one required by a regulatory or other appropriate authority) has been used, then the illustration should make this clear. Where illustrations do not follow a particular regulatory method, the actuary should consider whether it is appropriate to draw attention to this in the illustration and to make clear that the illustration is not suitable for comparing with projections prepared other specified basis.
- 4.3 The illustration should contain a statement of the principal assumptions used to calculate the

illustrated benefits.

- 4.4 The actuary should provide sufficient information to allow the ultimate recipient of the illustration to relate the benefits shown to his or her current income. The illustrated benefit may be a monetary amount, in real terms, or a percentage of projected salary.
- 4.5 The illustration should make clear what death benefits and what level of pension increases in payment have been included in the illustrated benefits.
- 4.6 In addition to providing basic information, the illustration should make clear:
 - 4.6.1 which of the member's funds have been included in the illustrated benefits.
 - 4.6.2 what level of future contributions has been assumed (including increases to future contributions);
 - 4.6.3 whether any adjustment has been made to future contributions, for example to cover the cost of insured death benefits; and
 - 4.6.4 if any asset values used are not market values, why these values have been used?
- 4.7 Income draw down illustrations should explain the way in which the absence of the normal cross-subsidy from early deaths under an annuity contract may affect the benefits eventually secured when an annuity is purchased.
- 4.8 All illustrations should include appropriate risk warnings and advise the ultimate recipient to obtain regular updates of the illustration.

5. Comparison of Defined Benefit and Defined Contribution Benefits

- 5.1 Particular care should be taken in preparing an illustration that will be used to compare defined benefits and benefits from defined contributions, since it is possible that a scheme member will make an irrevocable choice of future benefit arrangements based on such an illustration.
- 5.2 The actuary should provide sufficient information to enable the scheme member to understand the difference between defined benefit and defined contribution as regards the relative risk borne by the employer and the employee. The assumptions used to project the defined benefit and defined contribution benefits should be consistent.
- 5.3 An illustration prepared for this purpose should show separately the illustrated benefits from existing assets and the illustrated benefits from future contributions, if any, so the recipient can compare both current accrued benefits and ultimate retirement benefits assuming service continues to the illustrated retirement age.
- 5.4 The actuary should ensure that the illustration draws the scheme member's attention to other benefits that may be advantageous to that member and which differ significantly between the arrangements being compared.