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THE PENSIONS ACTUARY — PUTTING THEORY INTO PRACTICE

JOINT ACTUARIAL CONVENTION, 17 -19 SEPTEMBER 1995

This year's joint actuarial convention for pensions actuaries marked a departure from the previous pattern. The location remained the same, at the Majestic Hotel in Harrogate, but the focus this year was on the younger members of the profession, with the programme specifically designed for those within ten years of qualification. A convention for the more senior members of the profession had been held at Latimer the previous November, with an emphasis on workshops. Harrogate, by contrast, had a high technical content delivered primarily through teach-ins, although there were a number of workshops. Over 180 actuaries attended, including a small number from overseas.

The title of the convention highlighted its aim. However, it was inevitable that one of the constant themes that ran through the convention, both in the plenary sessions and the teach-ins and workshops, was the Pensions Act 1995 and, in particular, the Minimum Funding Requirement. Nevertheless, the organising committee ensured that many other topics were covered which were of value to the participants.

Setting the Scene

The first day was spent looking at the theoretical and technical side of the pension actuary's work, with two one hour break-out sessions devoted to each part of the programme. The day started with an address from the President of the Faculty of Actuaries, Mr Malcolm Murray, who discussed the background to, and the passage of, the Pensions Act 1995, before going on to consider the substantial number of issues that have arisen for the actuarial profession as a result.

In particular, the address covered the development of the Minimum Funding Requirement, from the Goode Committee's recommendations through to the proposals current at the convention. He set out a challenge for actuaries to remain up to date with the latest techniques, tools and methods, in order that they could discharge their forthcoming professional responsibilities. For example, the Minimum Funding Requirement necessitated a fuller understanding of the interaction between assets and liabilities and could lead to a reassessment of valuation methods.

Mr Murray stressed the need for the profession to continue to regulate and discipline its members, in order to set and maintain high professional standards in an environment that is changing rapidly. He encouraged participants at the convention to make their views known in the debates and consultation processes that were going on within the profession in the lead up to the drafting of professional guidance for pensions post Pensions Act 1995.

Mr Murray concluded his address by looking forward to the sessions that would follow in the first and second days of the convention. He highlighted a number, and welcomed, in particular, the session dealing with communication issues. It is the increasing responsibility of the actuary to communicate with the public, and such a session was, he suggested, most welcome.

Minimum Solvency Debate

The first day ended with a 'debate' on minimum solvency between Mr Paul Thornton, the Chairman of the Pensions Board and Mr Michael Pomery, a member of the Pensions Board. Although, at the time of Harrogate, it had become a lot clearer as to what is likely to be required from the profession, the issue still caused sufficient unease for the speakers to set out their own preferences as to what they would prefer minimum solvency to be, and for this to give rise to a number of questions from the floor.

Mr Pomery opened the debate, outlining the arguments that had been employed to move away from the Goode Committee's gilt edged 'matching' basis to the proposals current at the time of the convention that took some account of the actual investments in occupational pension schemes.

Mr Pomery expressed concern about the weakening of the basis. He would prefer to see a stronger basis with stiff penalties if underfunding occurs for scheme specific reasons, but with more flexibility to defer payments when macro-economic factors, such as an equity market crash which may reverse itself in time, intervene.

Despite the name change from Minimum Solvency Requirement to Minimum Funding Requirement, the actuarial profession could still get the blame if a scheme which meets the new test winds up, and then cannot meet its buy-out costs. There was some support from the floor for this view, although, when a show of hands was asked for at the end of the debate, the majority of participants thought that the proposals current at the time of the convention were about right.

Mr Thornton continued the debate, which itself was an echo of one held at Staple Inn in 1992, by considering the arguments from the employer's perspective. He reminded the audience that pension provision is a voluntary act by employers, and that early leaver rights had been improved substantially and retrospectively by legislation enacted over the last decade. Employers were right to resist additional burdens that a stringent solvency test would entail.

Mr Thornton suggested that adequate long-term funding was more important than short-term solvency in providing security to members. The change in name and basis was, therefore, to be welcomed, and the new test was consistent with the Institute of Actuaries and the Faculty of Actuaries original submissions to the Goode Committee.

Setting the standard any stronger could be counter-productive, and Mr Thornton wondered what the response of employers might have been had a more stringent test been in operation over the last decade. The conflict between ongoing funding and short-term solvency is a classic actuarial problem, and, on balance, he felt that the Government had set an acceptable compliance standard.

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Pensions in Europe

The second day moved onto the practical and latest developments side of the pensions actuary's work, again with two one hour break-out sessions devoted to each part of the programme.

The day started with an address from the President of the Institute of Actuaries, Mr Chris Daykin, who took 'Pensions in Europe' as his theme. The talk ranged from the demographic influences that are shaping European governments' social security provision in the next millennium through to European Community law that is in existence and in prospect.

Starting his address, the key issue, which has resulted in many countries taking stock, is the ageing of populations. This well known phenomenon was demonstrated by the use of graphs covering such areas as fertility rates, family size, expectation of life and dependency ratios. He then moved on to consider the action that European governments are taking, illustrated on a country by country basis, to manage the substantial increase in social security provision that these projections imply.

In addition to moving state pension ages upwards, European governments were considering adjusting the three pillars of pension provision (government, employer sponsored and private) away from government provision. An outline of a number of countries' current approaches to pension provision was given, to illustrate the different backgrounds against which each government is having to formulate policy.

Although the address focussed on countries within the European Union, attention was drawn to a number of countries in Eastern Europe and South America, where some interesting ideas were being developed. However, coming back to the United Kingdom, Mr Daykin reaffirmed that our problems are comparatively small, thanks to a strong well funded occupational pension scheme sector and the presence of technical ability, enabling the U.K. to face with confidence the issues of the future.

The break-out sessions covered the following topics:

Theory

This section of the convention included introductory lectures given on stochastic modelling of defined benefit schemes and derivatives by actuaries recognised as experts in the field. By way of contrast, solicitors spoke in two sessions about Trust and Employment Law, as it impinges on the work of the pensions actuary.

The theory side of the convention was not totally devoted to subjects that would be familiar to pensions actuaries. Following a recent article in *The Actuary* magazine, a challenging lecture was given on fuzzy logic by a member of Bristol University's Engineering Mathematics Department.

Techniques

Eight sessions were offered in this part of the convention, some of which ideally followed the sessions offered under the theory heading. For example, two sessions covered the practical application of stochastic pension fund models and the use of derivatives. Other sessions ranged over the areas of actuarial expertise, including developments in funding methods and asset-liability modelling. New areas, such as flexible benefits, were covered, while a thought provoking session was run on the use of approximations and rules of thumb in pensions actuarial work.

Practice

The second day moved on to the more day-to-day issues that a pensions actuary addresses, and the practice section of the convention included topics as varied as benefit design and compliance with the Financial Services Act 1986, through to workshops where the extent of actuarial guidance from the Institute and the Faculty of Actuaries was debated, and the all important issue of communication with the layman was addressed.

Latest Developments

The final section of the convention included a number of topics, either directly stemming from the Pensions Act 1995, such as managing minimum funding and the new contracting-out regime, through to other recent developments, such as the proposed revisions to SSAP24 and the contentious area of transfer analysis systems.

Throughout the convention the emphasis was on informality and participation, the latter made possible by the significantly smaller number of spaces available than at previous pensions conventions in Harrogate. Generous time given over to lunch, coffee and tea breaks also enabled participants to get to know others taking part, and to discuss the programme of events.

As with all conventions, it was not possible to meet everyone's wishes, and a number of issues were raised in the convention questionnaire which can be picked up by the organising committee. However, one thing that seemed to be universally agreed, was the wisdom of bringing together the more junior part of the profession for a few days in a setting where they could keep abreast of changes within the actuarial world, and so meaningfully add to their post-qualification professional development.

Once again, thanks should go to the excellent work of the Institute and Faculty staff for their efforts before, during and after the convention, to the organising committee for their careful planning, as well as to all the speakers and rapporteurs, without whose willingness to offer their services the convention would not have been possible.

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