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THE LIFE OFFICE PENSIONS ACTUARY

SEMINAR, 15 MAY 1992

THE seminar was organised at the request of the Pensions Joint Committee and was a joint Institute and Faculty event. It was held at Staple Inn Hall and was attended by 57 actuaries.

The seminar was aimed at pensions actuaries working in life offices who are involved with insured and managed fund final salary schemes. Mr Roy Brimblecombe, Chairman of the Pensions Joint Committee, was Chairman. The programme consisted of four sessions, followed by an open forum.

The reasons for holding the seminar were described by the Chairman. First, there was a feeling amongst some life office pensions actuaries that their interests were not covered particularly well at other seminars. Secondly, it became clear at the pensions seminar held at Staple Inn Hall in February 1992 that life office pensions actuaries were not letting the Pensions Joint Committee have their views on the issues discussed at that seminar. Thirdly, the Pensions Joint Committee has devolved responsibility to monitor the various guidance notes, and it was a useful opportunity to discuss particular issues on them. The Chairman emphasised that since 1984 employed actuaries have had the same direct professional responsibilities as consulting actuaries, that the guidance notes are equally relevant to them, and that the public look on actuaries as a single profession and expect the same high professional standard whatever the source of the actuarial advice.

ACTUARIAL VALUATIONS

Mr Stephen Yeo discussed current issues relating to actuarial valuations and transfer payments. He mentioned the pressures on funding from direct restrictions in legislation, benefit improvements, the history of high real returns and the prospect of lower interest rates. He then went on to discuss SSAP24 and current funding methods and assumptions. He pointed out that, even on strong bases, schemes can become theoretically insolvent on discontinuance. He also raised the issue of conflicts of interest, particularly where the actuary is a member of the scheme. Finally, he talked about the implications of LPI, Barber and early retirements on transfer values, and asked whether bases are too weak.

The discussion covered potential conflicts of interest, the pressure on ongoing funding levels and the effect of Barber on both on-going and discontinuance valuations and transfer values. The Projected Unit Method appeared to have become the most popular method of funding. There was a call for GN11 to be changed to reflect the fact that gilt yields are not relevant to most transfers, because they are usually made to another with-profits or predominantly equity invested arrangement. Problems resulting from the life office pensions actuary not always being able to talk directly to the client where an independent financial adviser is involved were also raised.

MERGERS AND ACQUISITIONS

Mr Rodney Jagelman gave a brief introduction to the role of the pensions actuary in merger and acquisition work. He outlined the Sale Agreement and the role of the actuary advising the vendor or the purchaser. He then went on to discuss current problems relating to Barber, the Social Security Act 1990, the benefit restrictions introduced in the 1989 Finance Act, actuarial certification under GN16 and SSAP24. He emphasised that the actuary must be very aware of whom he or she is advising, and the financial importance of pensions relative to the transaction as a whole.

In the discussion it was pointed out that smaller companies seemed unaware of the potential importance of pension arrangements in a sale or purchase, and the sale or purchase agreement was often less than ideal. Mention was made that if, as a result of a sale, a new insured scheme was to be set up, this should be consistent with the insurance company's normal administration requirements and funding bases. Several speakers in the audience commented that they had taken a decision not to sign actuarial certificates under GN16.

SPECIFIC LIFE OFFICE PROBLEMS

Mr Stewart Ritchie then talked about his experience of the particular problems facing life office pensions actuaries and how he dealt with them. He emphasised that life office schemes can offer good value for money to small and medium sized employers. He thought that problems specific to, or more extreme for, life office pensions actuaries arise because of three main factors. First, smallness of scheme can mean that changes for individual members can have a big effect, refinement of funding assumptions is spurious and there are fewer discretionary increases. The life office pensions actuary may use assumptions which appear conservative, but may not be. Secondly, remoteness from the client can result in problems in lines of communication and obtaining direct access to the client. Thirdly, less customisation was possible, because benefit structures and funding methods are standardised. Mr Ritchie regards himself as actuary to the trustees and not to the employer, to a vendor or to a purchaser.

The discussion covered the role of the pensions actuary, and there was thought to be little problem because the capacity in which the actuary is acting is normally clear. Mr Ritchie had no problem in acting as actuary to the trustees, and would still feel able to respond to direct requests from the employer. The meaning of the new PSO Practice Notes relating to the application of the surplus regulations to insured schemes was raised. A number of speakers said that their office did check the 5% surplus limitation using a basis similar to that required under the surplus regulations.

PROFESSIONAL GUIDANCE

The final session was lead by Mr Fraser Low, Joint Chairman of the Professional Guidance Joint Committee, in which he commented on situations where actuaries might find themselves in need of professional guidance. He discussed what is considered to be actuarial advice, the actuary's relationship with his or her client, the need to identify the Fellow giving the advice and a change of advisor. He then went on to talk about independence and areas which the life office pensions actuary must consider carefully. He pointed out areas of special difficulty relating to the guidance notes, and where care is needed in relation to Financial Services Act authorisation.

The actuary's independence was discussed in relation to specific requirements in a scheme's rules, and Mr Low pointed out that the important point was to disclose any influence on the advice given. He suggested that the answer to the problems relating to the relationship between the actuary, the client and an independent financial adviser lay in trying to sort out the situation by telephone.

OPEN FORUM

Various points were discussed, including charges made by life offices for extra work, the effect of recent legislation on investment freedom, the effect of Barber on individual transfer values and communication where an independent financial adviser was trustee of the scheme. The Chairman indicated that there were occasions when it would be prudent to suggest that the second opinion of an actuary should be sought. He emphasised that if anyone had any problems with professional conduct or the guidance notes, they should seek advice from the Institute or the Faculty.

R. E. CLARK