

## ROLES AND RESPONSIBILITIES—THE ACTUARY IN PENSIONS

JOINT ACTUARIAL CONVENTION, 12-14 SEPTEMBER 1993

The 1993 residential Actuarial Convention was held at the Majestic Hotel, Harrogate from 12 to 14 September. It was arranged jointly by the Institute and the Faculty of Actuaries. A total of 288 participated, including 217 Institute Fellows, 48 Faculty Fellows and 3 visitors from overseas.

In his opening remarks, the President of the Faculty observed that the programme was wide ranging, exciting and challenging. It would no doubt lead to some heated discussion despite the dull image of the actuary. Although significant issues such as equal treatment, the future of the State scheme and the Goode report were currently under consideration, these were barely mentioned in the programme.

The opening discussion was about the public perception of actuaries. The Chairman of the Programme Committee suggested that the stature of the profession might have diminished, and he stressed the importance of knowing where we stand and how we are perceived.

The Chairman of the Faculty's Image and Awareness Research Group said we needed to improve journalists' image of our profession. The influence of the profession was too narrow. We need more contact at a senior level with the public sector and to develop understanding among careers advisors.

The Chief Executive of OPAS stressed the need to reach a wider audience and to take credit where it was due. The Goode report may help the profession to raise its profile. We must improve communication with scheme members by avoiding jargon and unnecessary complications.

The third speaker, a member of Institute Council, agreed that incomprehensible actuarial practice harmed the public image. Actuaries must retain the capacity for original thought and not just act as compliance officers.

The Honorary Publicity Officer of the Faculty said that a Joint Public Relations Committee had been formed to target journalists, legislators and employers as well as senior civil servants and ministers. *The Annual Review* and *The Actuary* will be distributed outside the profession. He also stressed that all members have a responsibility to improve public awareness.

The concurrent sessions, designated either as 'Teach-ins' or 'Workshops', were sub-divided as follows:

### *A. Fundamentals*

These sessions covered topics ranging from valuation assumptions, including trends in mortality, annuity pricing, divorce, money purchase, futures and options and performance measurement, to Europe and the ERM. The impor-

tance of avoiding unnecessary complications when presenting results was again mentioned, particularly as an increasing amount of actuarial advice may be provided to individuals in future.

### *B. Scheme and Benefit Design*

Here the topics included flexible benefits, where the U.K. experience is still some way behind the U.S. experience, cash balance plans, switching to money purchase, the growing market for critical illness cover, as well as disability benefits and long-term care. Concerns were expressed about the potential cost of the latter, and it was suggested that tax incentives might help.

There were sessions on individual transfer values. Differences in the amounts offered for a given benefit were highlighted by the results of the most recent survey carried out by the Institute and the Faculty. It was generally agreed that this variation was difficult for the public to understand or to accept, and that a more consistent approach was called for.

### *C. Responsibilities*

These sessions covered potential conflicts of interest where the actuary advised both the trustees and the employer, particularly in relation to bulk transfers and actuarial valuations.

The possible introduction of funding standards was also discussed, in anticipation of Goode. Concerns were expressed that the minimum standard might become the norm, and that freedom to choose investments would be curtailed. The existence of a compensation fund might present a moral hazard.

In a session on quality, BS5750 was considered to provide a useful framework, but did not guarantee quality of service.

Accounting standards in the U.K. and U.S.A. were also discussed. SSAP24 had failed to achieve comparability between companies. Problems also arose because of the creation of substantial prepayments supported by surpluses that no longer existed or were inaccessible to the sponsoring companies. In many cases, the actuary was still not consulted about the pension cost figures and disclosures for the company accounts.

There was also a session on the potential implications of European Directives for pension fund investment in the U.K.

### *D. Roles*

Under this heading, there were sessions on investment strategy and asset and liability modelling. The latter was thought to have a part to play, despite potential conflicts with investment managers, and criticisms of various aspects including the communication of results.

The involvement of actuaries in mergers and acquisitions, compensation for pension loss and divorce settlements were also discussed.

The changing role of the actuary was highlighted, both in the context of the forthcoming Goode report and in response to more general changes in working

practice and pension provision. The possible decline of final salary schemes was a major concern. Alternative outlets for actuarial expertise in future included remuneration consultancy, appraisal of capital projects and long-term care.

Edward Nugee, Q.C. was the principal guest speaker. His theme was 'The Actuary and the Law'. He envisaged an equilateral triangle which characterised the contractual and fiduciary relationships between the employer, the employees and the scheme trustees. There are often commercial advantages if the actuary advises all three parties, but he must stand down if an actual conflict of interest arises. The actuary has three distinct roles: valuer (in carrying out actuarial valuations and other costings); negotiator (in acquisitions) and witness (giving actuarial evidence in court). Mr Nugee thought that actuaries would have increasingly frequent contact with lawyers in future as actuarial opinions are tested in court. He thought that Trust Law would continue to be the most appropriate basis for pension schemes in the U.K.

In his summing-up, the President of the Institute said that the Convention might have been given the alternative title 'Waiting for Goode'. Even though the report was not yet available, there had been no shortage of topics for discussion. The President had identified three main themes:

- the technical part—valuations, annuities, bases and investment techniques,
- scheme design, including transfers, contracting-out and, of increasing importance, long-term care of the aged, and
- the professional role of the actuary, covering standards, conflicts of interest and quality control, as well as relations with other professions.

More than half of the profession now work in pensions and, inevitably, few see the whole picture. The Convention had given us a valuable opportunity to gain insight into the pensions scene as a whole. In view of the vast scale and complexity of current pension provision in the U.K., the President emphasised the responsibility of the profession to simplify, clarify and explain, both to individual employees and pensioners and to the world at large.

The President recalled some statistics. Although there were more than 165,000 private occupational schemes in the U.K., with a total of 6 million members, more than half of these members were in the largest 500 schemes. While the NAPF naturally tended to reflect the views of these large schemes, life offices saw things from the viewpoint of the many smaller schemes, including money purchase arrangements, as well as being concerned with the provision of personal pensions.

The President was pleased to note that many of the sessions had approached the frontiers of our work, including futures and options, asset and liability modelling, critical illness and long-term care. All of these were areas where the profession has much to contribute. The Institute and the Faculty have established working parties dealing, *inter alia*, with the financing of pensions as a

whole, and with the impact of funding in the U.K. contrasted with the approach in other European countries, including book reserve methods.

In closing, the President thanked the organisers—the Programme Committee and in particular its Chairman and Institute and Faculty staff—and all others concerned, for making the Convention such a success.

C. F. B. DALLARD