

The Actuarial Profession
making financial sense of the future

Pensions conference 2010
Peter Tompkins

Top 10 pensions papers you should read

10 June 2010

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1. Review of the Principles of Life Office Valuations (Redington, 1952)

- General paper on Current Life Office Practice (includes life and pensions business)
- Particular Focus on Immunization
 - Matching Assets to Liabilities (and arranging assets to ensure that profit emerges on changes in interest rates)
- Subsequent Pension Practice quite different – “the cult of the equity”

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2. A Realistic Approach to Pension Funding (Thornton and Wilson, 1992)

- Focus on “best estimate” discounting of liabilities
- Assets valued on an “actuarial approach”
- Concept of “dual interest rate” for accrued and accruing benefits
- Weakness of traditional assumption that salaries and investment returns correlate

3. Defined Benefit Pension Schemes – Funding for Ongoing Security (Marshall and Reeve, 1993)

- Focus on actuarial funding methods – Projected Unit compared with Accrued Benefit Method
- Defined Accrued Benefit Method assessed for check on solvency of pension scheme
- Dual approach of Thornton and Wilson explored

4. Report of the Pension Law Review Committee (Goode, 1993)

- Review set up after Maxwell pension thefts
- Thorough analysis of state of pension law
- General endorsement for status quo for pension scheme structures
- Consideration for various forms of pension protection – some supported, others not

5. The Financial Theory of Defined Benefit Pension Schemes (Exley, Mehta and Smith, 1997)

- Corporate Finance approach to pension liabilities and corporate value
- Essentially regards pensions as akin to corporate debt
- Market-based approach drawing on financial economics
- Encouragement for more progress in the direction of use of financial economics

6. Pension Fund Valuations and Market Values (Head et al, 2000)

- A long look at the “actuarial approach” to valuing both assets and liabilities
- Withdrawal of ACT in 1997 had cast doubts on the discounted income approach to assets
- Drivers for Change – Accounting, Regulatory, Solvency, the MFR
- Focus on Financial Economics
- Valuation Methods Contrasted

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7. Pensions Funding and Risk (Chapman, Gordon and Speed, 2001)

- Corporate Finance Focus – Scheme plus employer treated as entity
- Focus on Risk – Investment Risk in particular
- Market Consistency
- Analysis of all Stakeholders and Risks
- Importance of Clear Solvency Disclosure

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8. Longevity in the 21st Century (Willetts et al, 2004)

- Analysis of changes in 20th century by type of improvement
- Focus on medical advances and potential for more
- International trends reviewed
- Thorough analysis of causes and potential for future emergence

9. Intelligent Trust, Small Print and Good Communication (O'Neill, 2006)

- Treats the challenge of trust in professions and in other groups in society
- Confusion between management and accountability
- Transparency not a panacea
- Informed Judgment, Independence and Intelligent Communication are keys

10. Should Projections of Mortality Improvements be subject to a minimum value? (Baxter, 2007)

- Analysis of historic trends and rates of improvement
- Review of possible reasons for deterioration
- Population Mortality review
- Review of Profession's most recent tables
- Topical issues for future developments

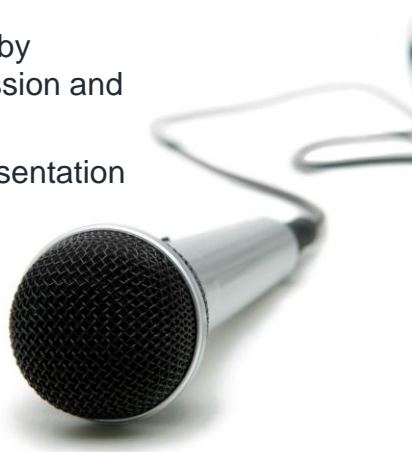
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Questions or comments?

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