

Update from Accounting Sub-Committee

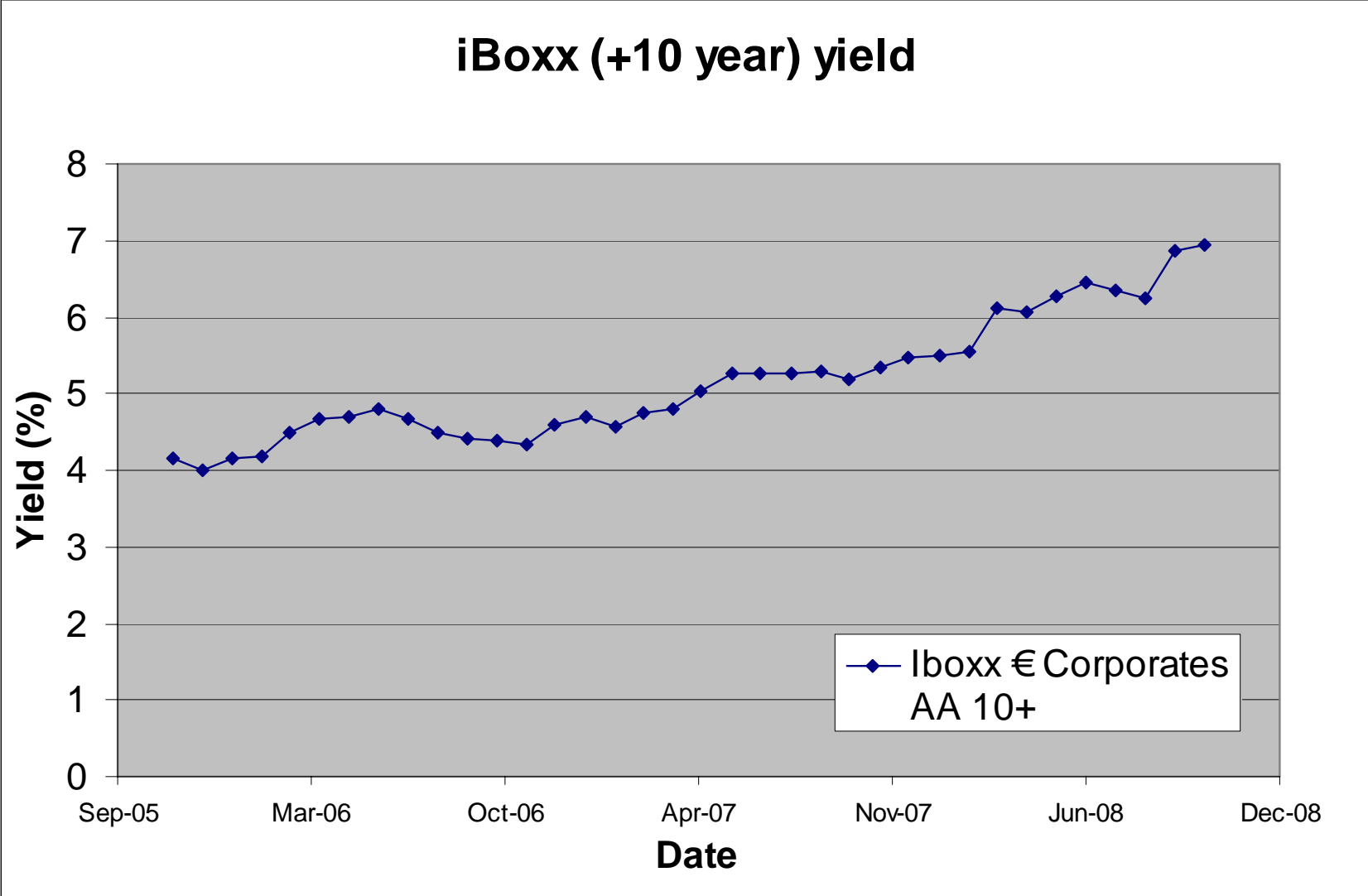
Paul McMahon

Agenda



- Discount rate setting for 2008 year end
- Mortality assumptions
- Price inflation indicators

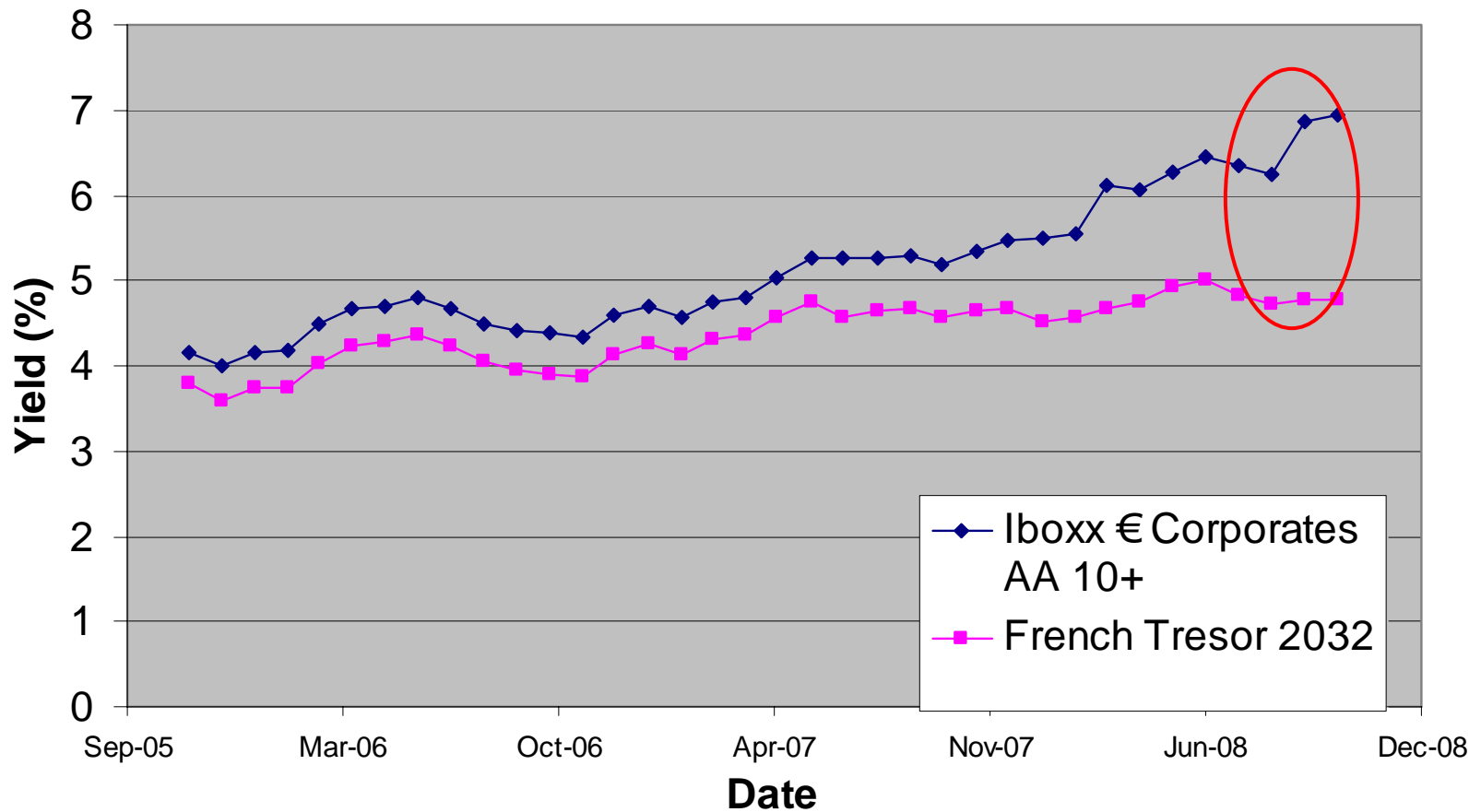
Yield on AA Corporates has increased



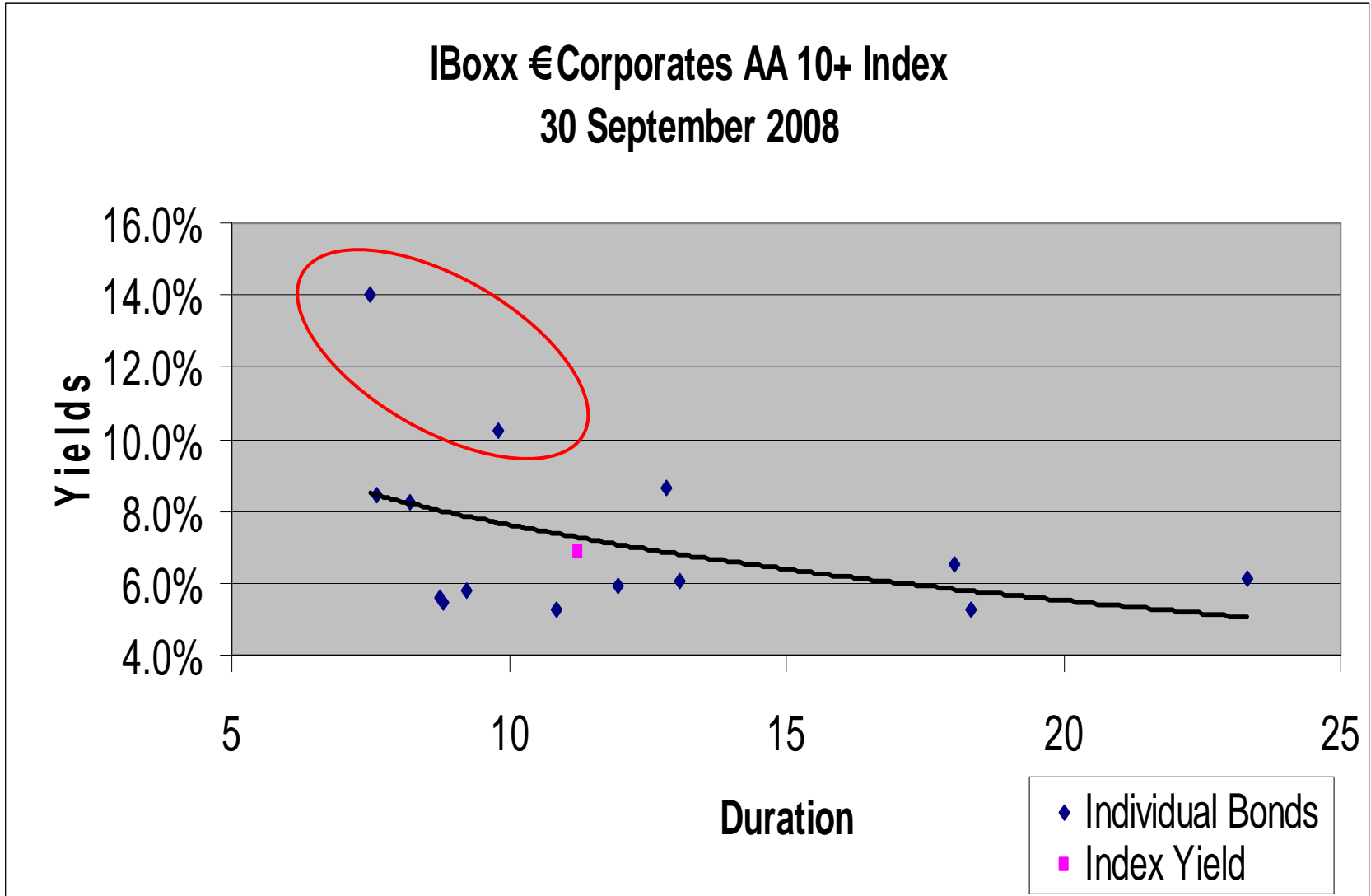
Risk premium has increased significantly



French Tresor 2032 versus iBoxx (+10 year) yield



iBoxx (+10 year) index at 30 Sept 2008



iBoxx Index – 30 September 2008

- remove bonds “on watch”



Term (yrs)	All Eurozone AA corporates included in the IBoxx Index			Excluding corporate bonds of companies listed on Moody's watch list *		Difference
	Yield (%)	Duration		Yield (%)	Duration	Yield (%)
3 – 5	6.81%	3.50		6.24%	3.51	0.57%
5 – 7	7.18%	4.75		6.06%	4.85	1.12%
7 – 10	7.24%	6.40		6.74%	6.49	0.50%
10+	6.86%	10.53		5.98%	12.03	0.88%

** Currently, 14 companies with high quality corporate bonds in the Iboxx membership data are included on Moody's watch list for a (possible) downgrade of the credit rating. We have excluded the corporate bonds (55 in total) issued by these companies from this analysis.*



Discount Rate – likely auditor questions

- What methodology has been used to set the discount rate and has this methodology changed since the previous reporting date?
- What allowance has been made for plan-specific factors such as age profile?
 - For example, if the yield on an index has been used, how has the yield been adjusted to reflect differences between the term of bonds comprising the index and the term of the plan's liabilities?
- If the yield on an index has been used, what consideration has been given to whether the constituents of the index are appropriate?
 - For instance, some indices contain a larger number of bonds issued by financial institutions which currently have high yields and which some commentators have suggested should not be considered high quality.

2008 discount rate setting



- Discount rate assumption possibly subject to greater scrutiny this year
- Need to engage clients and auditors early in the process
- Agree methodology before year end
- Be alert to
 - Possibility of risk premium over government bonds reverting to “normal” range
 - Bonds being re-rated in the near future and reducing index yield
- Try and achieve consistency from year to year

Mortality



- Context to SAI Demography Committee research paper
 - best estimate of Irish mortality
 - transfer value basis
 - allow for expected mortality improvements
- Likely to be seen by auditors as a reference point for accounting assumptions
- Based on 2007 survey results, mortality assumptions used in accounting valuation may need to be strengthened
- Next table illustrates financial impact of these possible changes

Comparing mortality bases



	Current age	SAI accounting survey (2007)	108% 00 series Lives with CSO improvements (% increase)
Life expectancy at age 65	65	20.2	21.5 (6.4)
	45	20.9	24.4 (16.7)
Actuarial factor at age 65	65	16.0	16.4 (2.5)
	45	16.2	17.7 (9.2)

- Note: the Actuarial Factor is based on the following assumptions: 6% discount rate, 2.5% increases to pensions in payment and 50% spouse's pension on death after retirement.
- Male life expectancy and factors



Mortality – likely auditor questions

- Auditor checks that company has received appropriate advice. Asks the following questions to establish this:
 - Was it reasonable for management to conclude that this is an appropriate assumption?
 - Has the actuary advised that the assumption is his/her best estimate at the calculation date?
 - Does the assumption allow for the most up to date investigations available? If not, is the justification provided reasonable?
 - Does the assumption include appropriate allowance for improvements? If not, is the justification provided reasonable?
 - If an internal investigation has been performed, are we happy with this?

Price Inflation (HICP)



	31 Oct 08	30 Sep 08
French Tresor FRTR 5.75% 2032	4.77%	4.77%
OAT€ 3.15% 2032	2.86%	2.31%
Implied Inflation Rate	1.85%	2.40%

- Market yields imply significant reduction in implied long term inflation (HICP) over month of October.
- Short term market forces/distortions or actual reduction?
- Should also consider inflation targets set by policymakers/monetary authorities.
- Note Irish CPI referenced by most schemes.



Questions?