



PRESIDENT'S ADDRESS

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1. INTRODUCTION AND WELCOME

I have the honour of being the 18th President of the Society and I am pleased that a number of my predecessors are here this evening. I am particularly pleased to welcome Peter Delany, President in 1981/83, as one of my personal guests: Peter talked me into returning to work in Ireland 13 years ago and I am grateful for the support and wise counsel he gave me during the years we worked together. I am delighted also to welcome John Prevett, who was a senior and much respected partner in Bacon & Woodrow with whom I worked closely during my time in London, and who provided many valuable insights in my formative years. Another of my personal guests is Kieran Barry, Managing Director of Hewitt in Ireland, who has been supportive of my decision to accept the responsibility of the Presidency, although I am not sure that either he or I had a full understanding at that time of the commitment that could be required!

To balance these three distinguished gentlemen, I also have three female guests here this evening whom I am pleased to welcome to a meeting of the Society for the first time. I am delighted that my sister Lorna Shier can join me this evening to represent the family, and would like to take this opportunity to thank her, my parents and the rest of my family for their encouragement over the years, even though the family background was more agricultural than actuarial! I would also like to welcome my secretary Carol Dunne, who has put up with me for nearly 9 years, and has provided support above and beyond the call of duty over that period without ever complaining – well, not much. Finally, my wife Sarah, whom I met in that most unromantic of settings – a life assurance office – almost 30 years ago who has supported me and stood by me – even to the point of moving to Ireland – ever since. She will have her own challenges over the coming two years as she completes her degree in Trinity, but I know she will continue to do her bit to keep my show on the road as well.

Thank you to all my guests for attending this evening. However, if the only people who attended were those whom I had invited, it would be a very small gathering and I am delighted that so many members have turned out to support me this evening. In particular, I would like to acknowledge Professor Philip Boland, an Honorary Fellow, who has very recently retired as Director of the BAFS course in UCD, although he is continuing to lecture on the course. We congratulate him on the outstanding success of the BAFS course under the 17 years of his leadership and we wish him well in his semi-retirement.

I should mention at this point that the Presidents of the Institute and Faculty whom I had invited were unable to be here as they are attending the 150th anniversary celebrations of the Australian Institute, but both sent me their good wishes for which I am most grateful. I have also received good wishes from a number of members, including another of our distinguished Honorary Fellows, Dr. Garret FitzGerald, who are unable to be here tonight.

2. WHAT IS THE PURPOSE OF A PRESIDENT'S ADDRESS?

Before embarking on the preparation of this address, I spent a few minutes attempting to ascertain the purpose of a President's Address. In the first instance, I noted that addresses by my recent predecessors were titled "President's Address" rather than "Presidential Address" which, aside from any grammatical correctness, does make them sound rather less pompous, and I intend to follow their example this evening.

Two political analogies spring to mind – the Queen's Speech (more correctly referred to as the Gracious Address) at the State Opening of Parliament in Westminster and the annual State of the Union address given by US Presidents. Browsing the Wikipedia entry on the latter, I noted that

"Sometimes, newly-inaugurated Presidents have delivered speeches to joint sessions of Congress only weeks into their respective terms, but these are not officially considered State of the Union addresses." This seems to me entirely reasonable as nobody can be expected to have learnt enough from a few weeks in office to give a comprehensive address, so I hope you will bear with the shortcomings in my speech tonight. Wikipedia also records that "State of the Union speeches usually last a little over an hour. Part of the length of the speech is due to the large amounts of applause that occur from the audience throughout."

These two events are an opportunity to set out the agenda for the coming session, although I note with some envy that the head of state only delivers the speech, and doesn't have to write it as well!

The current Presidents of the Institute and Faculty both took time at the start of their addresses to question what a Presidential Address should contain. Nick Dumbreck in his address to the Institute said:

"By tradition, the Presidential address surveys the actuarial landscape and identifies things that need to be done to make the profession more successful and improve its image. It may also analyse and offer suggested solutions to some of the intractable social policy problems of the day in the areas of insurance, pensions and savings."

Stewart Ritchie's address to the Faculty gave some examples of the role of a Presidential Address to a professional body:

"The President may seek to use it to provide visionary and inspirational leadership, or to pass on the distilled wisdom of his or her many years of professional experience, or to publish a list of instructions which he or she expects the professional body to implement."

My recent predecessors adopted different approaches to their addresses, and the striking thing about rereading them (apart from the frequent use of the word "trepidation" with which I can fully sympathise) is how well they reflect the personalities and convictions of their authors. Indeed, the President's Address may be the only opportunity to "speak from the heart" as, quite rightly, the statements which the Society makes, and the actions it takes, on issues pertinent to the profession reflect the decisions of Council and through them the views of the members.

Having said that, the tradition has been for the President to make a brief reference to the history of the Society, to note how it has developed in the intervening period and to identify some key issues for the next couple of years. I intend to follow this approach and then to move on to cover some specific topics from a personal perspective.

3. THE DEVELOPMENT OF THE SOCIETY

Most of you in this room will be familiar with the origins of the Society which had its inaugural meeting on 3 May 1972 with 17 Fellows attending. Now 35 years later, the Society has almost 600 Fellows and 300 students, with 40 to 50 new qualifiers per annum in the last few years. Previous Presidents have commented on the changes in the role of the Society from a debating and social club to being the professional body representing actuaries in Ireland, responsible for providing actuarial standards of practice for members, issuing practising certificates to members who fulfil a variety of statutory roles and disciplining members who do not adhere to the required professional standards. Whilst the financial affairs of the Society have progressed from the small notebook referred to by Jimmy Joyce, the constitution still leans heavily on the original golf club template to which Eamonn Heffernan alluded in his address. A revision of the constitution to make it more suitable to a 21st century business is one of the tasks which I hope to see completed over the next couple of years, and I would like at this point to express my appreciation and that of the Society membership as a whole to Bill Hannan who has done so much work over the years in this area and who will I am sure be happy to assist with the ongoing work.

The Society has engaged over the last two years, under the direction of Colm Fagan, with Government, the Financial Regulator and the Pensions Board, with a view to establishing an oversight mechanism for the preparation of actuarial standards of practice which apply to actuaries in statutory roles. In his address two years ago, Colm drew attention to the extraordinary degree of reliance placed by Government and the regulators on the work of the actuary when he said that:

“Just 160 or so Fellows of the Society of Actuaries in Ireland, or approximately one-third of our Fellow members, are responsible for certifying total liabilities of more than €120 billion to policyholders of insurance companies and members of defined benefit pension schemes.”

Sir Derek Morris considered the approach the UK profession had adopted for standard setting “to be inadequate to protect the public interest” and identified the following weaknesses

- Professional standards that have been weak, ambiguous or too limited in range and perceived as influenced by commercial interests
- An absence of pro-active monitoring of members’ compliance with professional standards
- A profession that has been too introspective, not forward-looking enough and slow to modernise.

Mindful of the findings of the Morris review, the Society sought the support of Government to the establishment of a statutory oversight body to take responsibility for actuarial standards. This is the approach which has been adopted in the UK with the setting-up of the Board for Actuarial Standards under the Financial Reporting Council, although the Society recognises that the cost involved in a similar approach here would be disproportionate. It is disappointing to report that Government does not consider that it is necessary to establish a statutory oversight body, on the grounds that the perceived benefits would not justify the costs. We are in further discussion on a possible voluntary

body as a first step, and we will of course consult fully with members before committing the Society to any changes.

The need to ensure compliance with standards has also been discussed with Government and regulators and in the pensions area it is now a statutory requirement for a scheme actuary to have a sample of his or her statutory work reviewed by an independent actuary to check compliance with legislation and actuarial standards. I do not believe that it is possible for the Society to object to independent review of the statutory work of actuaries in other fields, whether this is carried out by another actuary as part of a Society compliance monitoring scheme, by another professional such as an auditor or by the regulatory authority itself, and indeed we should be putting this in place before we are required to do so. Council will be asking the relevant practice areas and the Professional Affairs Committee to consider how this might be done, bearing in mind our experience of the implementation of compliance monitoring for scheme actuaries.

The third element of the structure which protects the public interest (and indeed enhances the reputation of the Society and the profession) is an independent disciplinary process which investigates and deals with complaints made against members. Much work has been done over the last couple of years to establish a Committee of Professional Conduct, independent of Council and with a majority of non-members. I am grateful to all of those who have been involved with this. I would like to take this opportunity to thank Professor Niamh Brennan for chairing the Committee, Maurice O'Connell, Eddie Shaw and Tom Ross, FFA, the "lay" members of the Committee, and all of those who have agreed to be on Investigating Committees. In their first report covering the period to 30 April 2007, the Committee reported that there had been two complaints referred to it and I understand that one further matter is currently being investigated. Although it would be nice to think that the number of complaints against members of the Society will be few, I suspect that more cases will arise over the coming years and it is important that we develop and refine the operation of the disciplinary process to ensure that all such cases are dealt with efficiently, equitably and expeditiously. We must also reinforce the requirement on members to refer any instances of misconduct to the disciplinary process (after discussing the issue with the other member concerned) although, in a small profession, in a small country, this is a very difficult step to take. I would recommend to members who feel that they have any such concerns to discuss them in the first instance with the Director of Professional Affairs.

Whilst we may feel that the actuarial standards of practice which we develop are clear and robust, and that our members comply fully with them, this might not be the conclusion of an independent review, particularly if there had been some event, such as the failure of an insurance company or a large pension scheme which brought the role of the actuary into the limelight. In passing on the chain of office to me earlier this summer, Colm expressed his relief that no such event had occurred during his Presidency, and I am very keen that I will be able to make a similar comment when I have completed my term of office!

4. INTERNATIONAL INVOLVEMENT

Most of you should now be aware that the Society is hosting the meetings of the International Actuarial Association (IAA) in Dublin next month. I hope that a number of you will be able to support these events and uphold the Society's well-deserved reputation for active participation in international matters. At the Presidents' Forum, I will be making a short presentation on our experiences as a small (but growing) association to help inform the IAA's approach to supporting the developing actuarial bodies around the world. The Society is also supportive of other IAA initiatives, such as the proposed development of a qualification in Enterprise Risk Management, and also in the establishment of an international education system.

On the European scene, we work through the Groupe Consultatif, whose main focus in recent years has been the introduction of the Solvency II regime for insurance companies, which saw the light of day in July of this year. The Groupe's Insurance Committees and Working Parties played a major part in the development of the framework, and the role of the actuary within it, by working closely with the European Commission and CEIOPS, the European regulatory body. The Society was primarily represented in this work by Bruce Maxwell, Michael Culligan and John McCrossan: we can also, of course, claim Seamus Creedon who, as a UK representative, chaired one of the Working Parties.

I am grateful to all of those who have given their time and continue to do so to represent the Society on these important bodies. I am delighted that some new faces have agreed to become involved in these committees, which augurs well for the continuation of the Society's contribution in the international arena.

5. THE IMPORTANCE OF CONTINUING EDUCATION AND PROFESSIONAL DEVELOPMENT

I have deliberately entitled this part of my Address as continuing education and professional development because although we are now all familiar with CPD, we do not appear to place the same emphasis on ongoing technical education. Those of you who have studied the Society's insignia will be aware that the "t" in the top left corner represents Student's t distribution, which was developed in 1908 by William Sealy Gossett, who worked at Guinness and published his work under the pseudonym Student. Although this work was carried out almost 70 years before the Society came into existence, it was thought fitting to include the "t" in the Society's insignia to demonstrate the relevance of statistical work to the actuarial profession.

It is a truism that we continue to learn throughout our professional lives, and with the pace of change in recent years it is understandable that individual actuaries may be unable to keep up with modern thinking in certain areas. The comment I quoted earlier from the Morris report which criticised the UK profession for being "introspective, not forward looking enough and slow to modernise" challenges each of us to consider if we have been keeping up with developments which we can use to improve the way in which we discharge our functions, be it as an actuary in an insurance company, an investment adviser or practitioner, a pensions scheme actuary or somebody working in another actuarial field.

I for one would readily admit to having reached the point where my eyes glaze over at the sight of even a relatively uncomplicated formula, despite having obtained a good maths degree at university. Indeed, I was glad that my son was able to cope with Leaving Cert honours maths without any coaching from me. Apart from the understandable desire to have a break from studying on completing the exams, I suspect that the demands of day to day work as a qualified actuary, where practical experience, commercial nous, and interpersonal and management skills appeared to be more highly valued than technical expertise, played a large part in my neglecting this aspect of my development. I would urge younger actuaries in particular to keep up with technical developments and to embrace new ideas readily to ensure that you and the profession keep up to date.

For example, a recent development in the investment of pension schemes has been *Liability Driven Investment*, or LDI, which seems to fit well with the traditional actuarial approach of immunization as espoused by Frank Redington many years ago. There was an excellent presentation on this topic by members of the Finance and Investment Committee some months ago. We need to be careful not to overstate the degree of matching which can be achieved – quite apart from the unknown of future mortality improvements, the continuing divergence of Eurozone and Irish inflation means that strategies which are based on investment in Euro-inflation linked instruments may well not prove to be a good match for Irish inflation linked liabilities. The Finance and Investment Committee is currently considering this issue and I look forward to its view on it. I repeat the plea expressed in Pat Healy's address that the Government facilitate pension scheme funding by providing a liquid market in long term bonds linked to the CPI, although I fear that the reaction (or lack of) may also be repeated.

Our CPD Scheme very much follows that of the UK Profession, which has been revised in an attempt to address the criticisms in paragraph 4.45 of the Morris report:

The review questioned whether the Profession's approach in this area has been effective in ensuring that important developments in thinking or in the regulatory environment have always been incorporated into the CPD programme in a timely fashion. Also of importance,

therefore, is the extent to which [examination] syllabus developments are reflected in the CPD programme that qualified actuaries follow.

Morris included in his recommendations:

The profession should ensure that the CPD scheme is relevant, up-to-date and takes account of developments in actuarial science, financial markets and other disciplines.

The detail of the Society's CPD scheme is set out in ASP PA-1 which states that:

The purpose of the CPD requirements .. is

- 1. to ensure that all actuaries develop and maintain the professional skills they need, and*
- 2. to ensure that others can confidently trust that they have done so*

The principles underlying the CPD requirements are

- It is important to be seen to be developing as professionals*
- Actuaries need to discuss, share and debate ideas with others, including those outside their normal work colleagues and clients*
- Actuaries need to consider their own developmental needs and plan future learning appropriately*

The Society now requires all actuaries to record CPD and whilst this is an additional administrative burden both for the member and the Society staff, we must ensure that all Society members, who use their actuarial qualification in their work, complete the prescribed amount of CPD and can show that they have done so. The Society runs a number of evening meetings, seminars and practice fora which should enable members to meet the requirements, and many members will also accumulate CPD from in-house training or meetings organised by other bodies.

I am very keen that we should increase the number of meetings which enable those of us who have missed the boat in relation to some recent technical developments to catch up. It seems to me that we should encourage recent qualifiers to do more presentations – perhaps less formal and more interactive than the current evening meetings – so that we can all benefit from the study which they have done and the way in which their skills have been applied in the workplace.

I would urge all members to embrace the CPD requirement as an opportunity to learn something new, and to attend meetings which may be outside their normal comfort zone. By tradition, the President chairs evening meetings and in that role needs to acquire some basic knowledge of the topic to be able to manage and if necessary prompt the discussion afterwards. I am looking forward to this aspect of my role, although I don't think I will need the hours to meet the CPD requirements!

6. HOW TO MAKE MEMBERSHIP OF THE SOCIETY OF VALUE TO ALL OUR MEMBERS

Actuaries work in many different areas and use their actuarial training to different degrees. About one third of active Fellows based in Ireland hold practising certificates to permit them to act as Appointed Actuary of a life assurance company, Scheme Actuary for a defined benefit pension scheme, Signing Actuary for general insurance statements of opinion and, more recently, reinsurance reserves (both life and general) and PRSA Actuary to perform certain statutory compliance functions for PRSA providers.

Fellow membership of the Society is a requirement for obtaining a practising certificate and we must therefore presume that Society membership is of practical value to these members as they would not be able to carry out their function if they were not members. In addition, the Society has developed actuarial standards of practice in relation to these statutory roles, and a good deal of the time of the relevant practice committees, the Professional Affairs Committee, Council and the Director of Professional Affairs is spent developing these standards, and promulgating them to the membership. In addition, the focus of most of the CPD sessions which the Society offers is on these statutory roles and the related regulatory environment.

So what does the Society offer if you are not required to hold a practising certificate? As I have just commented, anybody who is working as an actuary is required to show compliance with CPD requirements, albeit at a less onerous level than for those holding practising certificates. We have in recent months been delighted to welcome some members at Society meetings who have not previously been frequent attendees. I hope that they found the content of the meeting of value to their professional development and not just as a means to the end of being able to tick a box. We must continue to offer a wide range of topics, including non-actuarial speakers, and with a greater emphasis on new ideas which may be of more interest to those in the so called “wider fields” or indeed those who may be thinking of moving into them, than those whose primary focus is on fulfilling the traditional actuarial functions.

In this connection, I would point out in passing that the previous Council endorsed the proposal by the Treasurer, Pat Ryan, to remove the charge for attendance at regular Society meetings so that members may now attend as many meetings as they wish without additional cost so there is more incentive to go to a meeting even if it is not directly relevant to the day to day job.

By definition, those who are thinking about how to make the Society more relevant to members who do not work in the traditional areas of insurance and pensions are already involved. I intend to seek the views of the less – involved members to help inform our strategy for maintaining the relevance of the Society for all of our members.

7. THE SOCIETY'S ROLE IN THE ANALYSIS OF MORTALITY AND SICKNESS STATISTICS

I want to take a couple of minutes to comment on the Society's role in the analysis of mortality and other statistics and whether in the public interest we need to take a stronger position on these issues.

Actuaries who advise in relation to pension schemes or life assurance policies must make assumptions with regard to mortality. Data about the incidence and length of periods of illness and disability are fundamental to medical insurance, permanent health insurance and critical illness business, as well as informing the wider debate on health care. Whilst the Society does not have the resources or perhaps sufficient data to undertake the volume of work which is carried out for the UK Profession by the Continuous Mortality Investigation Bureau, our approach to this important aspect of an actuary's work has relied on individuals with an interest (or a business need) to take the lead. I am pleased that in recent years the Society has developed good links with the Central Statistics Office, largely due to the initiative of individuals such as Shane Whelan and John Armstrong, and I am very keen that we should build on these. The recent appointment of Gerry O'Hanlon as Director General should strengthen this relationship: in his previous role as Assistant Director - Demography and Social Statistics, Gerry had regular contact with the Society and indeed attended and spoke at our meeting on mortality statistics earlier this year.

Richard Willets, in his presentation to the Society in June, noted that UK actuaries advising pension schemes had been slow to adopt the more up to date tables and in practice were assuming trend reversal of mortality improvements. I suspect that pensions actuaries in Ireland are reluctant to build in the level of future improvements in mortality that might be suggested by recent trends in Irish population mortality, as demonstrated by Shane Whelan in his presentation at that seminar. This needs to be fully explained to clients, so that any decisions made by the employer and trustees about funding recognise the (quite high) probability that further strengthening may be needed in future if mortality improvements persist. In this regard, the actuary may be considered as the bringer of unwelcome news by employers, trustees and members alike who may have hoped that recent favourable economic conditions would have improved the level of funding only to see this reversed by assumed greater longevity.

I note that in July the two Presidents in the UK considered it necessary to write to Life Actuaries and Scheme Actuaries "to emphasise the need to understand developing trends [in mortality]. The maintenance, improvement and broadening of knowledge in this area is a core element in an actuary's CPD."

I believe that actuaries – certainly those practising in life assurance, pensions and healthcare – should have ready access to appropriate and relevant statistics to inform their work. To this end, I propose that the Society establish a Committee with responsibility to develop the Society's role in providing, promulgating and analysing information on mortality and other demographic statistics on which we are perceived to be – and indeed hold ourselves out to be – experts. This would also help the Society to speak authoritatively (and consistently) on public policy issues such as pensions and healthcare.

8. CLEAR COMMUNICATION OF COMPLEX IDEAS

A common criticism of actuaries over many years has been their perceived inability to communicate information and advice in a way which enables a non-actuarial recipient of the advice (usually a client or employer) to take properly informed action.

The responses of actuaries (or perhaps I should have said excuses) to this criticism tend to include the following

- The subject is complex and can't be explained easily
- There is no single answer so we have to give a range of possible answers
- We are required by legislation or actuarial standards of practice to put in a lot of detail which is intended to inform the reader but only confuses them (if they ever read it)
- We are required by our legal and compliance people to put in a lot of caveats which make it impossible to give clear succinct advice

These (and there are no doubt others) are all valid points but must apply equally to other professions, at least some of which don't have the same reputation for incomprehensibility.

When I started my career, the actuary was not generally required or expected to explain in any detail how he or she reached his conclusions or whether there were other possible results. In many cases, too much confidence was placed in the actuary's advice without sufficient examination of how he had arrived at this. The Equitable Life affair is a lesson to all actuaries and those who rely on their advice that disclosure, challenge and debate are a prerequisite to a proper understanding of the actuary's advice, and actuaries should welcome and take comfort from the increasing need to disclose details of their work.

It is very difficult for any actuary who has produced what he or she believes is a perfect report, containing a summary of all the information reviewed, details on assumptions and methodology, results, sensitivity analysis, projections etc. to accept that this may not meet the requirements of the client. There is a temptation to rationalise this by concluding that the fault lies with the lack of knowledge of the reader. As individuals, and collectively as the Society, we must try harder to understand what our clients want and to provide it in a form which they can easily understand.

As an aside, I was asked many years ago to review the client files of an actuary who had left my firm and who had a reputation for straight talking. One letter to the client's pensions manager which I vividly remember consisted of a single line which went:

"Further to our conversation yesterday, I calculate the cost to be £250,000."

I never discovered any follow up correspondence, so can only presume that the letter provided all the information the client needed! Whilst I would not advocate taking things to such extremes, I think we should try harder to put ourselves in the shoes of clients, ensure that they are told clearly what they "need to know" and that there is nothing in the advice which is there primarily because we (and probably other actuaries) thought it was interesting.

If you will permit me to mount a personal hobby horse for a few moments, I should like to speak briefly about the evils of PowerPoint slides as a way of imparting (or more particularly recording for posterity) important technical information. Am I the only person to have sat through a presentation which I thought at the time was clear and well argued, and have taken away a hard copy of the slides with some scribbled comments only to discover even a few days later that I cannot properly recollect the key points which had been made in the

presentation? It is, of course, much more difficult if you have not attended the presentation and only have the slides as a guide to the topic.

I fully accept that PowerPoint slides of charts, graphs etc can be of great assistance where such data is a necessary part of the presentation, but slides which simply contain a summary of the words which the presenter is saying at the same time (or even worse, the actual words which he or she is saying) are actually a distraction.

To connect with one of my earlier themes, the continuing education of actuaries is something which would be easier to accomplish if there were an ongoing stream of detailed rigorous “papers” – available online of course – to which reference could be made rather than a collection of slide presentations which, however much of an aid they may have been for the presentation at the time, do not give the reader sufficient information to understand the topic. It would be a great pity if some of the excellent work done by speakers at Society meetings was not properly recorded for posterity and for the benefit of other members who wish to research that topic at a later date.

9. THE DEMISE OF THE DEFINED BENEFIT PENSION SCHEME

I turn now to the practice area which has been the focus of my working life to date, namely the provision of advice on the design and funding of defined benefit pension schemes. When I began my career in this area, the defined benefit pension scheme appeared to be a simple and robust way of providing good quality pensions for employees without requiring them to take any action to provide for their retirement income, or to understand how their pension scheme worked. There are many pensioners, and their spouses, who are currently drawing pensions from their occupational schemes which provide them with a good standard of living in retirement, and will continue to do so for the remainder of their lives, with little or no risk that their benefits are not fully secure. For these people, the schemes have met the employer's objectives when the scheme was established.

In the realities of the 21st Century, the defined benefit pension scheme is seen as an anachronism, and indeed a burden which shareholders in a publicly quoted company should not be expected to support. A number of scapegoats have been identified for this change, but, the fundamental reason for the decline in popularity of defined benefit schemes is surely the increasing cost of pension provision which in such schemes falls mainly or totally on the employer. This was clearly explained in an excellent presentation by Roz Briggs, the Society's representative on the Pensions Board, to the Pensions Review Group set up by Government following the social partnership talks last year. In her presentation, which was also given to the Society at an evening meeting in February, Roz pointed out that the rate of employer contribution which would have been recommended in 1990 to provide a standard retirement pension would have more than doubled in the intervening period. This cannot be blamed on auditors and their accounting standards, which have however heightened the awareness of Finance Directors to their pension costs. Neither is it a consequence of the Funding Standard under the Pensions Act which requires a scheme to hold sufficient assets to meet its wind-up liabilities, which has made schemes vulnerable to short-term movements in markets or bond yields. The three main drivers of the increase have been the fall in long-term investment returns and inflation in the global economy, the significant increases in longevity which have arisen in the last few years and which may be expected to continue, and the improved provision for early leavers from defined benefit pension schemes due to the extension of the preservation and revaluation requirements, driven at least in part by the change in labour patterns where very few employees are now expected to remain with the same employer for their entire career.

So, to what extent are the actuaries to blame for the perceived problems of defined benefit pension schemes? Whilst by the standards of today it is easy to dismiss as too simplistic the advice given by actuaries in relation to the funding of schemes back in the 1980s, when a formal valuation report might run to seven or eight pages compared with the 40 to 50 which a scheme actuary is now required to produce, the advice provided reflected what were considered at the time to be reasonably prudent estimates of future experience. What was missing was some additional commentary on the impact of future experience, particularly in relation to investment returns and mortality rates, being less favourable than anticipated. This was in any event partly masked by the margins taken by the actuary, for example in taking assets into account at a smoothed or discounted value, and by ignoring the significant surpluses which would arise on withdrawal prior to retirement age. While in hindsight actuaries would like to be able to point to several pages of caveats and sensitivity analyses, I doubt that the actions taken by employers and Trustees at the

time, had this additional information been provided to them, would have differed significantly from what they actually did.

In my view, the greater omission was the failure to ensure that employees understood that a defined benefit pension scheme was not the same as an insurance policy and that the benefits emerging at retirement depended on the ability of the employer to fund the scheme, not just at the current levels of contribution, but at whatever level might arise in future if experience was adverse. Whilst clearly this is a message that employers would have been reluctant to emphasise, it would have created more realistic expectations for members and their Trade Union representatives, who reasonably enough in the absence of any statement to the contrary interpreted the defined benefit promise as a contractual guarantee.

With the recent introduction of Solvency II for insurance companies, the distinction between an occupational pension scheme promise and an insurance contract becomes even more important, if it is to be argued that the reserving requirements set out in Solvency II should not also extend to occupational pension schemes, as appears to be the current thinking of the European Commission and CEIOPS. In a nutshell, if Solvency II were applied to an occupational pension scheme, it would be required to hold technical provisions calculated on a risk free basis, with explicit margins for prudence, and additional solvency capital to cover the possibility of short term insolvency. This would undermine the viability of many if not all of our current defined benefit pension schemes. This is an issue which we will hear much more about in the coming years, and which I understand will be addressed by the Faculty President, Stewart Ritchie, when he visits us in November.

Against this background, is there a future for the defined benefit pension scheme, and indeed for actuaries who work in that area? There are approximately 1,400 defined benefit pension schemes in Ireland, covering half a million current employees, and paying out benefits to many retirees. Even if no more new defined benefit schemes are established, I am confident that there will be plenty of work for actuaries in this area for many years to come, even if the majority of schemes are closed to new entrants. Indeed, the advice required in relation to funding and investment strategy for closed schemes, and the work involved in winding-up schemes, may require even more actuarial input than is the case with open, well funded and ongoing schemes. However, I do not think that we should yet write-off the defined benefit scheme as the vehicle of choice for employers wishing to provide secure retirement income for their employees. I note that Michael Pomery, the immediate past President of the Institute, and a former colleague of mine, has expressed the view that defined benefit schemes will have their day again. Indeed, I attended a seminar in Oxford University last week at which experts from the United States and Germany, as well as some UK delegates who were not actuaries, suggested that defined benefit schemes would survive, and I do not think that they were saying this merely to make me feel wanted. It is, however, clear that the design, funding, investment and communication of defined benefit schemes must be substantially overhauled if they are to be a viable vehicle for pension provision in the future.

Traditionally, the defined benefit scheme has provided benefits based on salary at or near retirement, which leads to inequity between leavers and stayers, and also between high flyers and those who remain at relatively constant real salaries over their entire career. I do not think that either of these features is desirable, and would suggest that the career average revalued earnings or CARE scheme is more appropriate for the 21st Century, where employees are more mobile, and where earnings may fluctuate significantly over a career, due to career breaks, maternity leave, fluctuating bonus and overtime. All of these issues can be addressed by a CARE scheme in a way which enables the employer to take

the investment risk, rather than passing this to the employee in a defined contribution arrangement. Indeed, this design also facilitates a fall in earnings towards retirement if an individual wishes to move to part-time or reduced working as part of a phased retirement plan. I note with interest that the Civil Service in the UK has recently moved to a CARE design for new recruits and this may encourage a trend in this direction.

Another area in which the traditional defined benefit scheme is not best suited to the 21st Century is in relation to the provision of spouse's benefits. It is increasingly difficult to provide protection for the partners of pension scheme members given the informal and transient nature of some relationships, and the increasing incidence of separation and divorce. Is it equitable to provide dependant's benefits for some and not for others who do not have qualifying dependants, be they single or with a non-marital or same sex partner? My advice to an employer setting up a pension scheme at present would be to provide lump sum life cover at the same level for all employees (including those who elect not to join or not to contribute to the pension scheme), on the basis that this is fair and equitable, as well as easier to administer and insure. I would not recommend providing for spouse's or dependants' benefits, but leave it to the individual member to do so if he or she thinks it necessary. The rules of defined benefit schemes normally include an option to surrender pension for a spouse's pension at the point of retirement, and although this is infrequently used because most schemes have spouse's pensions as of right, employees who wish to provide protection for their spouses after retirement can be encouraged to make AVCs to enhance their pension entitlements, and to convert these to a spouse's pension at retirement if their circumstances at the time require this.

There has been much recent publicity about Hybrid schemes, where part of the risk which would otherwise be carried by the employer is transferred to the member, but not to the extent of a full defined contribution scheme where the member is fully exposed to market movements, inflation and annuity risks. For an employer who wishes to take a paternalistic attitude towards its employees, and in particular to those who are lower paid and cannot provide for their own pension in an efficient manner, an approach whereby earnings up to a certain level are covered by a defined benefit arrangement, with excess earnings being pensioned under a defined contribution plan, as much appeal, and we have recently seen some examples of this. Indeed I advised a client a number of years ago who had a couple of defined benefit plans and wished to revisit the provision of pension for future employees as the workforce was expanding considerably. Having initially expected that this would involve the introduction of a defined contribution scheme, an examination of the employer's objectives led to the introduction of a new defined benefit scheme, with a cap on earnings to count for pension, and the introduction of employee contributions as a means of sharing the risk with the employees.

The sharing of risk between employer and employee will, I think, become a feature of defined benefit schemes if these are to survive. This most commonly takes the form of an increase in member contributions, and this could be linked into increases in life expectancy. Alternatively, this could be addressed by provision for future increases to normal retirement age. Given the alternative of taking on all the risk inherent in a defined contribution arrangement, I believe that employees and their representatives should be prepared to enter into such risk sharing arrangements if employers are willing to facilitate them.

There is, of course, a place for defined contribution schemes, and I would suggest that for smaller employers these are the only practical and efficient way of providing pensions for their employees given the increasing compliance burden associated with defined benefit schemes and the unacceptable level of volatility which can arise where the membership of a scheme is relatively small. However, the increasing cost of pensions is also relevant for

a defined contribution arrangement, and there needs to be a greater public awareness of the contributions needed to provide an acceptable level of retirement income. A part of this awareness is also an understanding of investment risk, and the relative values of lump sums and lifetime income. The introduction of Approved Retirement Funds in recent years has enabled some people to retain control of their pension capital post retirement, and to draw income or not as they so wish. This additional flexibility should be made available to all defined contribution arrangements, and indeed could also be extended to cash balance plans established on a defined benefit basis provided that appropriate safeguards are in place to ensure that a certain level of retirement income is guaranteed for life.

We are of course awaiting the Green Paper which is likely to focus on ways of increasing coverage of supplementary pensions which has to date been addressed by the introduction of PRSAs. The sale of PRSAs has been relatively modest, by contrast with the outstanding success of Special Savings Investment Accounts when these were introduced at a similar time. At least a part of the popularity of the latter was due to the way in which the Government incentive was expressed, although it was no more valuable than the tax relief available on pension contributions. In their report to the Minister last year, the Pensions Board recommended that the tax reliefs applicable to PRSAs should be re-expressed as an additional contribution by Government at a level higher than that currently available to standard rate taxpayers, and I would expect that this approach, if adopted, would lead to some significant additional take-up of PRSAs, as suggested by a recent survey undertaken by the IAPF. An additional feature which would facilitate the sale of PRSAs would be some relaxation in the disclosure requirements at the point of sale. My own view is that much of the information provided to policyholders and pension scheme members is not adding much value, and is incurring additional unwarranted expense. I do not accept that detailed disclosure necessarily equips the purchaser or potential member to make an informed decision, and does not discharge the seller or employer of the responsibility to ensure that the product meets the individual's requirements.

I digress at this point to make a brief reference to the role of the actuary as an expert witness in court, which I have had some experience in over the years, but nothing like that of two of my guests this evening, Peter Delany and John Prevett. Over 20 years ago, I co wrote with my colleague Robert Owen a paper presented to the Staple Inn Society which borrowed its title from a comment made by a UK Appeal Court judge in a case where the evidence of an actuary (I hasten to add not me or any of the colleagues I have just mentioned!) did not find favour with the court. Mr Justice Waller said that "as a method of providing a reliable guide to individual behaviour patterns or to future economic and political events, the predictions of an actuary could be only a little more accurate (and would almost certainly be less entertaining) than those of an astrologer".

Although I am sure we would take issue with the tone of the judge's comments, the point is well made: an actuary cannot predict the future of any individual but can help others understand the implications of uncertain future events, and the likelihood that they will arise. Although the advice of the actuaries who are experienced in this field is highly valued by the courts and the legal practitioners, the actuary does not decide on the appropriate level of compensation, but provides information which enables the matter to be resolved either by settlement between the parties or by the courts.

In litigation, it is unthinkable that the same actuary could act for both sides. It seems to me that there is an analogy with advice on defined benefit pension schemes where the interests of the employer and the trustees may be diametrically opposed – the employer may wish to minimize contributions to the scheme whereas the trustees should be seeking to maximize the security of the members. If there were an actuary on each side, each party would have

impartial advice which might enable them to meet somewhere in the middle. This may in practice be what happens where the actuary is acting simultaneously for both company and trustee as an “honest broker”, but this approach may not be tenable in some situations. Even where the actuary does his or her best to be impartial, it may be exceedingly difficult to convince scheme members that he or she has not been influenced by the company, who ultimately pay his or her fees.

The UK Profession is in the process of drawing up guidance for members in this situation and the Society is also considering this issue in parallel, taking account of the different regulatory structure in the UK. Given the small size of many Irish schemes, it is not practical on cost grounds to require two actuaries to act in relation to each scheme – one for the company and one for the trustees, although of course both parties may insist on this. However, the Society has a duty to ensure that actuaries with a dual appointment disclose and manage conflicts of interest in a way which does not damage their own reputation or by extension that of the profession.

I believe that the Society must do its best to ensure, in the public interest, that occupational and personal pension provision is secure and robust, and that all parties understand that there are no easy answers to the ongoing tension between security and affordability. This understanding can only be achieved by speaking out clearly, authoritatively and consistently on the key issues. I do not believe that it is in the Society’s long term interests to adopt positions merely to preserve jobs for actuaries, although there may be times when we are accused of acting in our own self interest. I look forward to many challenges in the pensions area over the next two years.

10. CONCLUSION

In a Powerpoint presentation, I would conclude with a slide summarising the key messages or action points of my address, so here is what it would have said

- We must all embrace and the Society must facilitate continuing education and professional development
- The Society must develop a strategy to maintain its relevance to members outside the traditional and statutory roles
- The Society must be able to speak authoritatively on issues relating to mortality and other demographic issues
- We must all endeavour to communicate complex issues more clearly
- The defined benefit pension scheme can survive, although it faces many challenges which actuaries are uniquely well placed to address

I have indulged myself with a ramble through some parts of the actuarial countryside (with apologies to Frank Redington) although I am conscious that I have spent much of the time examining the pensions horizon. At least I have left some topics for exploration at a later date! I hope that Council will be able to address some of these issues over the coming two years, although I am conscious that we already have quite a full agenda.

I thank you for your attention and look forward to your support over the next two years.