Newsletter
February 2012
The Society of Actuaries in Ireland

New Qualifiers

Back Row from Left: *Christopher Goold, Keith Sutherland, John Nugent, Kate McEvoy, Sinead Carty, Maebh O'Connor, John Pender, Mary Dillon, William McElinn, Niall Dooner, Daragh Burns, Ciarain Kelly, Peter Gray.*

2nd Row from Left: *Ciara Hennessey, Keith Gawley, Cora Ciechanowicz, Gavin Maguire , Sinead O'Halloran, Theresa Shiels, Michelle O'Regan, Gillian Tucker, Majella McDonnell, Avril Hilliard, Keri Monaghan.*

Front Row from Left: *Thomas Donegan, David O'Shea, Tanya Beattie, Azka Ali and Laura Power with Paul O'Faherty, SAI President.*

Update from SAI President

I hope the New Year is treating you well.

One of my most enjoyable responsibilities so far as President of the Society has been welcoming newly qualified Fellows to our ranks. We hosted a Fellowship Ceremony for our 29 new fellows and their families and friends on 17th November (group photo above). Apart from being a well deserved celebration of a great achievement, the enthusiasm of the group was really energising. Our next Fellowship Ceremony will take place on 23rd February when we will be welcoming another 27 new qualifiers (listed overleaf) who were successful in more recent exams. I am sure you join me in congratulating all these new FSAIs.

Meanwhile it has been a busy six months or so for the Society. In addition to well attended and high quality evening meetings and practice forums a lot of work has been happening across a range of fronts. Just some examples are:

- We engaged extensively (and it turned out successfully!) with key government and other stakeholders on pensions tax ahead of last December's budget. Our essential message was to "stop the clock" to allow the impact of changes, that had already been made, to be fully understood and to allow time for any further measures to be properly considered.

Continued...

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Update from SAI President *...continued*

- We have strengthened and formalised regular contacts between the Society and the Central Bank of Ireland (CBI).
- We have made submissions on a range of topics relevant to the profession to the European Insurance & Occupational Pensions Authority (EIOPA), the CBI, the International Actuarial Association (IAA) and the UK Actuarial Profession.
- Also, we have kicked off a number of initiatives, including establishing working parties to review the Society's brand and image and its governance structure and we have tested the level of insurer support for SIDE (Studies in Irish Demography Experience).
- And we have moved to a modern, fit for purpose office in Clanwilliam House!

Of course, all of this would not be possible without our strong and dedicated secretariat but equally vital is the huge level of member volunteer engagement in all facets of the work of the Society. The willingness of so many of you to commit so much of your time to serve on Council, committees, working parties and focus groups; to present papers at evening meetings; and to support the activities of the Society in many other ways is truly inspiring. To go some way to recognising this volunteer contribution Council has decided to establish an annual award to recognise outstanding service to the Society. Watch this space for more details.

Finally, as some of you will know, the Society has entered its 40th year and planning has commenced to celebrate this milestone. Again, watch this space.

All the best,
Paul O'Faherty

Qualifiers from September 2011 exams and other recent exams

Brona Breary	Irish Life
Declan Boland	Aviva
Barbato Borza	Friends First
Teresa Bradley	Aviva
Andrew Clusker	Aviva
Bella Jane Daniels	Canada Life
Mary De Burca	Zurich
Kieran Drea	Joseph Byrne &Sons
Elaine Ducker	Friends First
Geraldine Finucane	Central Bank
Mary Geraghty	Canada Life
Kevin Humphreys	Aviva
James Keough	Zurich
Keivn Lennon	Towers Watson
Karen Lynch	Irish Life
Sheila McMahon	Mercer
Philip Mullen	Mercer
Grainne Murray	Zurich
Ann O'Regan	Zurich
Patrick Quirke	Aviva
Blathnaid Reynolds	Friends First
David Robinson	RSA
John Ryan	Allianz
Alan Tiernan	Aviva
Paul Torsney	Towers Watson
David Walsh	PwC
Aine Wilson	CACI

Winner of SAI Medal

L to R: Dr. Patrick Murphy, Head of School of Mathematical Sciences UCD; Yvonne Lynch, SAI Director of Professional Affairs; Luke Kelly, winner of SAI prize; Paul O'Faherty, SAI President; and Professor Brendan Murphy, Director of BAFS Programme UCD.

Paul O'Faherty congratulated Luke Kelly on being the best performing student in 2011 in the final year actuarial subjects in the Bachelor of Actuarial and Financial Studies in UCD and therefore the winner of the Society's prize. Paul presented Luke with a cheque, and also for the first time this year, the prize included a Society medal in recognition of this achievement.

Risk Reduction in Defined Benefit Pension Schemes

On 2 November 2011, Patrick Cosgrave and Paul Victory delivered a presentation on *Risk Reduction in Defined Benefit Schemes.*

In the first part, Patrick discussed Risk Reduction & Settlement Pre-Windup. He reviewed the current pensions environment from the perspective of a Chief Financial Officer (CFO). While the CFO's chief day to day concerns are likely to be revenue and profit, the upcoming changes to IAS19 are also a worry. These will make it more likely that the pension scheme presents problems such as balance sheet deficit, increased cash calls and a more stringent regulatory regime.

According to the IAPF 2011 DB Pension Scheme Survey, the majority of DB pension schemes are now closed to new entrants. This means that they are moving towards 'end game' mode. For some, wind up in the near term may be the only solution. Patrick presented some options around near term liability reduction and settlement, long term liability settlement, and funding of the residual deficits.

Patrick discussed some of the pros and cons of an Enhanced Transfer Value (ETV) program. ETV programs are much better established in the UK, and the UK regulators have published best practice guidelines. However, the existence of the Pension Protection Fund, and the 'Debt on Employer' regulations, mean that the ETV decision framework in the UK is fundamentally different to Ireland.

Annuity buy-outs fully remove risk but there are difficulties for schemes with pension increases, since pension increases currently rank below other benefits on windup. The new priority order, incorporating potential reductions in pensions in payment, will make annuity buy-out even more difficult. Sovereign Annuities may offer other possibilities in this area.

Annuity buy-in has the advantage that it does not trigger an accounting settlement cost, and it provides flexibility around the benefits purchased (for example, excluding pension increases).

Longevity swaps are a means of reducing longevity risk but they have limited application for Irish pension schemes, mainly because Irish schemes tend to be small.

A de-risking program should include an investment strategy review. Liability Driven Investment is one possibility, but it is difficult to match the minimum funding standard liabilities. Dynamic De-risking strategies can be used to protect investment gains (assuming the gains actually occur.) Cash constraints mean that many sponsors will look for asset funding arrangements.

In the second part, Paul Victory discussed Pension Scheme Windups and some of the issues which might arise in the windup process.

When a sponsor notifies the trustees that it intends to cease supporting the scheme, a number of questions immediately arise, including the timing of the windup, and whether any of the trustees or their advisors has a conflict of interest. Trustees will need to obtain independent legal advice.

Trustees need to consider whether they should issue a contribution demand. Depending on the terms of the Deed, it may be possible to issue a demand for the entire deficit. This is more feasible where there is a notice period. Where there is no notice period, they may issue a demand anyway, or might have issued a pre-emptive demand. Where the employer is insolvent, a claim for unpaid contributions may be made to the Insolvency Payments Scheme.

There is likely to be a significant delay in the distribution of assets, and trustees need to decide on an appropriate investment strategy during the windup period. The most prudent approach would be to match, as closely as possible, the way in which the assets are going to be distributed. For pensioners the best match is probably AAA bonds. For deferreds the best match is probably cash, although this is not ideal if the windup process is likely to be protracted. Members with AVCs should be notified of any change in their circumstances.

Various issues arise in relation to scheme data, such as verifying the existence of dependents. Additional complications arise in underfunded schemes, where it can be difficult to determine the priority of benefits related to pre-scheme service, pre-91 service, benefit augmentations granted on redundancy, the Minimum Contributory Retirement Benefit, and situations where the benefit formula has changed during a member's service.

Trustees need to consider whether to use the standard SAI basis for transfer values, or something stronger. Where there is a significant delay in distributing assets, trustees need to consider whether to make an adjustment for investment return, and whether to make an initial payment on account followed by a final payment at a later date. Members who are close to retirement age, at the date of wind up, will not receive any money at all until the first payment is made to deferreds.

Pensions will continue to be paid from the fund until annuities are purchased, but pension increases are a low-ranking benefit, so it may be appropriate to suspend pension increases during the windup period. Where pension increases are linked to inflation, trustees have discretion to use a fixed-rate substitute. Sovereign Annuities will add one more option for the trustees to consider. Where the employer and scheme are both insolvent, it may be possible to purchase pensions from the Pensions Insolvency Payment Scheme. In choosing a provider, the main issues to consider will be cost, security, and ease of administration.

Other issues to consider include Pension Adjustment Orders and divorce proceedings in progress, death claims in progress, entitlement to cover for life insurance, disability claims, the Pensions Levy, requests for early retirement, and – in some rare cases – use of scheme surplus.

Following the presentation, there was a short discussion. In the context of investment de-risking, it was queried to what extent risk is actually removed and whether is it appropriate to use terms such as "risk-free." Patrick agreed that de-risking is generally a transfer or transformation of risk, and that a debate is needed on these issues. In the context of windup, it was noted that using a stronger transfer value basis than the SAI minimum could have the effect of reallocating assets from pensioners to deferreds. This reallocation could be challenged, so the transfer value basis used would have to be defensible.

Ronan Keane

Risk Management: Banks versus Insurers

On Wednesday 9 November 2011, John O'Brien (Mercer), Brian O'Kelly (DCU) and David O'Connor (Towers Watson) delivered a joint presentation on risk management in banks and insurers. Risk management is a hot topic in the current financial crisis and the large crowd at the presentation was testament to this.

Overview

John opened the presentation by providing an overview of risk management in banks and insurance companies. There is a high degree of convergence with risk management practices at the top level in banks and insurers but at the more detailed level there will always be differences due to the different business models.

All capitalist financial institutions take risks and a one in two hundred probability of failure is commonly accepted in the financial services industry as a reasonable level of security to aim for. Regulators must ensure that there are adequate qualitative and quantitative processes in place to keep companies in check because recent experience would suggest that the financial services industry shouldn't be allowed to self-regulate. John compared the balance sheets of banks and insurers highlighting the key risks faced by both.

The key risks faced by insurers include:

- Claims exceeding premiums
- Provisions for expected future claims increase
- Investments underperform
- Withdrawal rates increase
- Failure of a reinsurer

The key risks faced by banks include:

- Loans defaulting
- Loss of funding
- Cost of funding increases
- Interest rate exposure
- Capital is insufficient

The financial crisis uncovered the inadequate capital held by a number of banks. A major difference between banks and insurers is that capital alone cannot keep a bank solvent - it needs liquidity.

Insurance risks are typically independent while bank risks are correlated in unpredictable ways and are very often systemic in nature. Insurers are far more focused on tail risks and reserve for tail events. While banks reserve as if tail events never happen in the knowledge that if they do, they can play the moral hazard card.

Insurers fail when they behave like banks, banks fail when they behave like investment banks.

Whistle-stop tour of risk management in banking

Brian O'Kelly, a Professor of Finance in Dublin City University, gave an overview of how banks address risk management. The failure of risk management in banks has been clear throughout the financial crisis. Many banks used underwriting standards as a competitive weapon to help increase profits. One problem identified in banking was a lack of professionalism in certain areas. Risk management involves showing restraint to ensure the business lasts for the long term.

Banks tend to fail more frequently and often with disastrous consequences - banking is a risky business.
Banks provide loans for those who cannot access the market themselves. There is no history of explicitly pricing for risk in retail banking and there is no equivalent to technical reserves. Loans are classed as either performing or not performing. Brian believes there is a lot that the actuarial profession could bring to banking if they so choose.

A large proportion of the assets held by retail banks could be considered to be of weak credit quality. Banks borrow short term, lend long term and then compound the risks by applying leverage. Banks are set up entirely inappropriately but serve a societal good. Insurance companies on the other hand are funded by upfront premiums without the need for wholesale funding and insurance policies are generally long-term. Many insurers that failed were brought down by their quasi-banking activities. There is a strong case that there is no systemic risk in insurance unlike banking.

The number of claims experienced by an insurer should in general be constant over an economic cycle. However, in banking the level of default rate is hugely impacted by the place in the cycle. Banks constantly have to find funding in the market and if markets lose confidence in a bank this can severely damage its ability to source funding.

The regulatory response to the financial crisis is Basel III. It will require up to seven times more capital with higher liquidity coverage ratios and fewer asset classes will be considered high quality. Leverage will be capped with the removal of risk-weighting.

Similarities, Differences and Current Trends

David compared risk management in banks and insurers highlighting the similarities and the differences.
The Pillar I regulatory frameworks in Solvency II and Basel III were compared and contrasted. In Solvency II there is an equal mention of assets and liabilities/funding whereas in Basel III there are three times more references to assets. Insurance has benefited from having global origins whereas banks are still fundamentally a series of nationally organised entities.

David also looked at risk management from a customer focused prospective. One of the biggest risks to insurance companies has been reputation risk and not meeting customer needs, for example Payment Protection Insurance mis-selling in the UK. It is argued that focus on balance sheet integrity needs to be matched by a focus on the sustainable delivery of real customer needs.

Discussion

At this point the presentation ended and a number of questions were put to the presenters. The questions covered included:

- What has been learned from the financial crisis?
- What will be in Solvency III that is not in Solvency II?
- What can bank risk managers learn from insurers?

Niall Dooner

TILDA Design and First Findings

On the 16th of November Professor Alan Barrett of Trinity College Dublin and The Economic and Social Research Institute gave a talk on the Irish longitudinal study of ageing – TILDA. This study is led by Trinity College Dublin.

During his talk Prof Barrett explained that the study was commissioned to consider the phenomenon of the ageing population here in Ireland. The TILDA study is designed to increase our understanding of the challenges facing Ireland as a result of this phenomenon and how we can address them.
He stated that studies on this topic have been carried out in many other countries including the US and UK and that the TILDA study was designed so as to be as comparable as possible with them.

The professor described that the data sample was collected by choosing 25 thousand households randomly from the country-wide electoral register. The team then visited those households one by one to determine if there were people at or above the 50 years of age limit available for the survey. The final sample size was approximately eight thousand adults and the response rate was about 60%.

He described how each participant underwent an extensive face-to-face interview, was left a questionnaire to complete and return and was invited to a health assessment either at a dedicated centre or in the home.
The questionnaire was created to allow the participant to answer questions which were deemed too sensitive to be asked in a face-to-face context (e.g. regarding problems with alcoholism or experience of childhood sexual abuse etc). The health assessment was the last part of the survey and despite both its time consuming nature (approximately 2-3 hours) and the need for many individuals to travel to either Cork or Dublin the response rate among those who took part in the interview was high at over 80%. The individuals will be approached at two year intervals for at least the next ten years in order to collect further information, though he said the health assessment will only be carried out in the same detail in four year's time.

The professor highlighted during his talk that, compared to other studies, this Study is unique in the extensiveness of the health assessment and the fact that economic, social and health data has been collected at the same time for the same sample of individuals. He said during his talk that the connection between education, wealth and health has been seen time and time again in studies throughout the world and can be seen again here though the exact relationship between cause and effect is not yet known. As a result the study has generated much interest internationally. A further point of interest to the international community he said, though it's difficult for the national community, is the recession going on in Ireland and its impact on the older population.

The professor explained how happy he was to be giving the talk to audiences such as ourselves as the study is quite novel for Ireland and that they are very keen for the data to be used as extensively as possible e.g. by potential researchers in the audience. He also stated that there is the option for people to approach the project team with questions which they would wish for the team to investigate using the available dataset.

He went on to describe that the planning for this study began in 2006 and data collection began 3 years later. The total budget of the study, he said, was €26m, which was provided by the Department of Health, Atlantic Philanthropies and Irish Life.
He mentioned that Irish Life provided the initial capital, which though smaller than the other contributors, was crucial in enabling the study to get up and running.

During the talk Professor Barrett mentioned some of the questions the study was keen to examine such as the link between education, wealth and health, the impact of retirement on health and not just what demands older people place on society in terms of health care utilisation etc. but also the contributions made by them to our society.

He discussed the areas around which data was collected e.g. pension provision, assets, health service utilisation, transfers (financial and time) to children, social connectedness etc and other health related areas. He went on to describe some of the tests involved in the health assessment and how they have picked up the under-diagnosis of some conditions like atrial fibrillation (which can lead to a stroke in many individuals).
He stated that the implications of these findings is that the project team may be able to prove the financial benefits of screening programs for these under-diagnosed conditions.

The professor also discussed how individuals are not told about the results of their health assessment other than information like blood pressure which they could easily get by themselves.
He said this decision was not taken lightly and that the medical ethics committee in Trinity was consulted on this matter. However this allowed the team to maintain the randomness of the sample.

The second section of Professor Barrett's talk was about the first findings of the study which were given in a report produced last May. He explained that labour force participation, income and assets were of interest for this report and that the team were trying to look at the correlations between physical a nd mental health and labour force participation. They were also looking at the mental or physical health impacts of working beyond a certain age, among other areas. One finding he described, which is consistent with the results of other international studies, he said, is that the healthiest, most educated, wealthiest and most satisfied are those who are most likely to be working after age 65. He discussed other findings around the expected age of retirement and the proportions of those still working in each different age group.
One fact which Professor Barrett was happy to point out was that almost every individual in the group studied stated that they had not experienced age discrimination in the workplace.

The professor described many of the other findings around financial transfers, health and wellbeing such as the fact that social connectedness and loneliness levels do not change significantly across each of the age groups in the study.
The professor finished his talk by discussing how the data will be made available after the process of "anonymising" it is complete and that much of it will be available this January from the Irish social science data archive in UCD.

People were then invited to ask questions and when the talk wound up many commented on how interesting it had been.

Sheila Harty

The Debt Crisis in Europe & the SAI's new

The Debt Crisis in Europe

Colm Fitzgerald presented to a large attendance on *"The Debt Crisis in Europe"* followed by an introduction to the "*Financial, Economic and Investment Dataset"* on Monday 21st November 2011. SAI President, Paul O'Faherty, opened with an introduction of Colm, his career to date and the topics to be covered.

The Irish success story

Colm began his presentation by setting out the background to the Celtic Tiger and compared Irish GDP per capita over the period 1980 to 2008 relative to that of Germany, which highlighted the remarkable success story of Irish GDP growth, which was 60% of German levels in the 1980's and went as high a 33% over German levels just before 2008. The factors attributable to the Irish success story included European integration which led to funds from the EU which were mainly used for infra-structural projects (which he noted as responsible/function investments) and low interest rates. Internal Irish factors which contributed included the IDA, the IFSC and its relatively business friendly regulation, strong education investment, low corporate tax rate and, amongst others, being the only English speaking country in the euro.

Factors in the debt crisis

Colm outlined a number of factors which contributed to the debt crisis from a trader's perspective, which included the following:

- ***Money supply bubble:*** Ireland had a huge amount of indirect quantitative easing during the 1980's to 2008 which led to a housing and asset bubble. As the economy turned the housing market fell victim. In the last two and a half years, most of the quantitative easing which previously occurred has been reversed through quantitative contraction and the money supply decreased by nearly 25%.
- ***Medical analogy:*** people believe that the banks are the life blood of an economy. Colm believes that they can be best described as "the bad bacteria in your stomach", they are bad but you cannot function without them. Because the banks were over inflated the bad bacteria turned into a cancer cell but instead of curing the cancer cell we made it worse by pumping more money into them and hence they are currently on a morphine high!
- ***Political economics:*** politicians are not motivated to do what would be in the best interest of the country and will never shock the system even if this is the correct thing to do. In addition, they are always focused on re-election.
- ***Principal Agency problem or agency risk:*** This may be best described by the analogy of "the fish, the shoal and the trawler". We (the fish) think we are safer in the euro (the shoal), as we believe if we leave it we would end up like Iceland (eaten by sharks), but if there is a big crisis in the euro, we will be affected like everyone else (taken up by the trawler).
- ***The money tree:*** the use of derivative based products by traders has increased the downside risk expo-sures to peripheral bonds which most people in general do not understand.
- **The negative wealth effect**: since 2007, wealth in Ireland has fallen by around €800bn. We have effectively lost six times our income, which has affected some more than others. Most of the reduction in wealth relates to falls in property values, the cost of bank bailouts and falls in stock markets.
- ***Bad economic theory:*** there was a shift by the Federal Reserve in the US from managing the money supply and interest rates in the economy to mainly focusing on interest rates. They believed this was a better way of managing the economy as long as inflation remained low. However, during this time there was a big money supply bubble created in the background which led to the 2008 crisis.
- ***A bond bubble:*** the US are still able to issue bonds with yields falling which is counter intuitive to the general principal where yields usually rise when more issuances are made. This is mainly due to the current flight to safer assets, e.g. US bonds, which is pointing towards the creation of a US bond bubble which may eventually collapse.

European monetary integration

Colm discussed the creation of the euro and how the French and Germans wanted an alternative to rival the US dollar. The theory of optimum currency areas was highlighted, e.g. how Germany and Italy are too culturally different for a single currency to work. The creation of the euro still went ahead due mainly to the political will behind it. This lead to Greece securing German interest rates but they did not get the German austerity. Currently public opinion is on the side of keeping the euro alive, although if public or political opinion were to change, e.g. if there was a change in government in Germany, then this could lead to a break-up.

Irish culture

Colm went on to highlight some of the differences between Ireland and the other peripheral European countries by comparing different cultures. Ireland can be classed as a moderate, passive country, hence when there are significant austerity measures passed we were pretty submissive about it unlike our European counterparts.

Greece, Italy, Portugal & Spain

Italy has been described as too big to fall, too big to save. They have a gigantic debt which they are constantly rolling over and hence hugely mismatched. Italy's real problem is its lack of growth. Decisions taken at European level need to buy enough time to allow Italy to do the fiscal adjustment and structural reforms. This is a huge ask for Italy and there are questions over their willingness to make sufficient adjustments and reforms.

Colm believes that Greece, Portugal and Spain could all be regarded as relatively dysfunctional economies when compared to Germany. He described the Balassa-Samuelson effect, how these countries became less competitive after joining the euro. When these countries first joined the euro they all had relatively low price levels but after joining there was rapid price inflation which led to high wage inflation. Subsequently productivity decreased and their economies became less competitive.

Financial, Economic and Investment Dataset

Possible future scenarios

Colm concluded this section of his presentation by talking about most possible future scenarios for the euro. This included Ireland leaving the euro, which in his opinion may be beneficial for Ireland if we can keep the multinational companies in the country and the new currency devalues. We would have increased tax revenue and become more competitive, although our imports would become more expensive. Greece could leave the Euro in the short term which may not be a major problem. Greece could bring back the Drachma and have two currencies in circulation for a period. Colm predicts that political economics has a major role to play, as the French and Germans still want a currency to rival the dollar. This may lead to the Germans trying to absorb the "bad assets" in circulation and as a result could lead to their own economic crisis.

Financial, Economic and Investment Dataset

Colm began by acknowledging the assistance and goodwill of the individuals involved in the production of the dataset. The dataset was commissioned by the Society as a source of information on long-term trends in equity returns, bond yields, inflation and other financial parameters. The dataset is available on the Society's website at:
https://web.actuaries.ie/guidance-communications-and-consultations.

Colm explained the different sets of data available, outlining the sources of data and some interesting statistics. The credibility of the data and possible uses for the dataset, together with some keys points from his research, were highlighted. This section of the meeting concluded with a discussion around who the Society would make the dataset available to.

Paddy Ryan

SAI Upcoming Seminars

Enterprise Risk Management Seminar: **Tuesday morning 28th February, 2012 – Conrad Hotel**

Risk management has always been core to what we do. However, in today's environment of economic and financial uncertainty, new regulation and emerging lessons from the financial crisis, risk management has been elevated to a new level of importance and urgency as the financial services industry looks at risk and capital in new ways.
New responsibilities have emerged for actuaries, risk managers, senior management, board members and others.

This seminar is designed to create a deeper awareness of current ERM developments and to inform attendees about risk management priorities for the CRO and board members in 2012. Speakers will explore these topics against a background of developing regulatory requirements and a challenging business, financial and economic environment.

The Society's Healthcare Committee will host a seminar on Thursday afternoon 19th April in the Conrad Hotel

This seminar will attract interest from within and outside the profession. The seminar will cover recent rates of increase in health insurance premium and fears of significant further price increases in the next few years.

Pensions Seminar

Planning has commenced to hold a Pensions Seminar in the coming months and details will be posted to our website shortly.

Full details of the ERM and Healthcare seminars and online reservation facility are available at:
https://web.actuaries.ie/events

Pensions Accounting

On Wednesday 8th December 2011, an evening meeting was held on Pensions Accounting, appropriately timed to coincide with accounting season.

Keith Burns, Chairman of the Pensions Committee, introduced the three presenters for the evening –
Brian Mulcair, *Senior Consultant in Towers Watson and Chairman of the Pensions Accounting Sub-Committee;*
Una Curtis, *Director in the Department of Professional Practice at KPMG and Deputy Chairperson of the Accounting Committee of Chartered Accounting Ireland;* and
Terry O'Rourke, *Director of Accounting Consulting Services at PwC and Chair of the Accounting Committee of Chartered Accountants Ireland.*

2011 Pensions Accounting Survey

Brian Mulcair commenced the meeting, presenting the results of the Society of Actuaries 2011 Pensions Accounting Survey. It was noted that the results were based on conditions as at 31 October 2011 and that 11 firms had participated in the survey. The key differing assumptions between accounting and funding valuations are the salary increase and pension increase assumptions as opposed to the demographic assumptions. Brian provided detailed information on the setting of discount rates. The results indicated that 34% of those surveyed are setting discount rates by reference to the yields on an index of long corporate bonds, while 35% adopt a term-matching approach with the remainder using other approaches. There was a large variance in the discount rates derived based on a 20 year duration and market conditions at 31 October 2011 - a minimum rate of 4.1% versus a maximum rate of 6%.

Graphs on the individual constituents of indices were discussed in detail. It was noted that some financial bonds are giving higher yields than non-financials, while there are some non-financial corporate bonds yielding lower than sovereign bonds. Brian highlighted that the representative yields used do not represent the entire corporate bond universe. In particular there are some Eurozone collateralised mortgage-backed bonds, issued by Spanish banks, which are important to factor into deliberations on setting yields. These bonds have yields considerably higher than that available on other corporate bonds. The other key financial assumptions were also discussed. Brian noted that the salary inflation assumption is now tending towards 1% real rather than 2% real as reported in the comparable 2008 accounting survey results. The assumed social welfare offset increases are also now closer to inflation than the historical salary increase assumption. It is clear that demographic assumptions have become much less contentious, with almost 90% of the respondents recommending the ASP Pen-2 mortality basis for accounting purposes.

Accounting for Changes to Benefits

Una Curtis then took to the podium and presented on accounting for changes to benefits and for the pension levy. In looking at the estimate of the benefits, there is a requirement to take into account not just the contractual obligations, but also constructive obligations – any further benefits where the scheme by past practice or stated intention has given rise to an expectation by employees.

Three particular types of scheme changes were discussed – past service changes, curtailments and settlements. It was noted that it can sometimes be difficult to differentiate between past service costs and actuarial gains and losses. By way of example, Una spoke on the recent change in the UK to the reference inflation rate from RPI to CPI. The guidance suggested that where the terms of the scheme were clear the inflation rate was RPI, then the adoption of CPI increases was a negative past service cost. If historically RPI related increases had been granted, then judgement should be exercised as to whether this was a valid expectation of employees. If there was an expectation, then this again was a negative past service cost. If, however, it was deemed that there was no expectation then it may be considered a change in actuarial assumption. It was highlighted that another important issue is the timing of the recognition. If a change is deemed to be a change to a constructive obligation then there should be consultation or communication with members prior to the accounting change being recorded.

Pension Levy

The topic of the pension levy was Una's closing item. For 2011 there is an accounting policy choice to either deduct the levy from the expected return in the income statement or alternatively to apply an adjustment to the actuarial gain or loss on assets that passes through the Statement of Other Comprehensive Income. However for 2012, there is now the expectation that 0.6% will be deducted from assets and hence the levy will have to go through the expected return line in the income statement. Una made some final points in relation to the timing of recognising any reduction in liabilities where companies intend passing the levy on to employees. The recognition of any reduction in liabilities should not happen until the expectation of employees is changed i.e. when communications have been issued to employees.

The Actuary, the Auditor and the Accountant

Terry O'Rourke was the final presenter of the evening and started by providing some insight into the relationship between actuaries, auditors and accountants. In particular, Terry spoke about the roles and responsibility of auditors and the importance of the actuarial report provided. Terry noted that four years ago, when he last presented to the Society of Actuaries, the main debate was over the mortality assumption. Since then there is much more consensus on this item, while justification around the expected return on assets and discount rate assumptions is very important, especially given the current large variances in discount rates. The importance of consistency in the methodology applied was noted, along with providing information on how the assumptions are derived.

Changes to IAS19

The impending changes to IAS19 were then addressed. The changes were noted under the key areas of recognition, measurement, presentation and disclosures. Terry spoke of the new requirement to fully recognise the defined benefit obligation amount and provided some useful examples on the new structure of the profit and loss account. Of particular note is the area of disclosure, which will become more principle-based, rather than the historical detailed structure.

The characteristics of the plan, the risks involved and effects on future cashflows will become important parts of future disclosures.

Q&A

A lively questions and answers session ensued, in particular around discount rate setting. It was noted that sharing assumption setting methodologies with audit firms in advance of the year end would be a beneficial exercise. Keith expressed his gratitude to each of the guest speakers, bringing an informative evening to a close.

Lorna Seery

Practice Committee Forums

Three practice committee forums were held before Christmas and as always they were very well attended. The presentations and podcasts are available on the Society's website at:
https://web.actuaries.ie/events/past (member login required).

General Insurance Forum took place on 25 November

Agenda:

- Communicating Uncertainty – presented by the Communicating Uncertainty working party
- Actuarial modelling of Total Balance Sheet Uncertainty – Patrick Grealy
- Moving over to the Risk Side – Andrew Clarke - KPMG

Pensions Forum was held on 30 November

Agenda:

- Introduction - Keith Burns
- Proposed changes to the Defined Benefit funding regime - Brendan Kennedy
- Breakout session
- SAI position paper on the taxation of private pension provision - Cathal Fleming
- Update on the Standard Transfer Value Basis - Aidan Kennedy

Life Forum was hosted on 7 December

Agenda:

- Introduction and overview of committee work - Dermot Corry
- Changes to ASP-LA2 - Richard O'Sullivan
- Changes to ASP-LA8 - Colin Murray
- Regulatory update - Tony Jeffery
- Solvency II - Dervla Tomlin/Brian Morrissey
- Gender Directive and Age & Disability - Jim Murphy

Updates from the Practice Committees will be included in the next issue of the Newsletter.

In the Professional Interest Areas on the Society's website, you will find committee minutes and updates together with other information relevant to the particular practice area.

How to Pass the Communications Exam

On Thursday 24th November, the Society hosted an event titled *"How to Pass CA3"* in the Burlington Hotel. As many students have difficulty passing the communications exam, the evening was well attended, with only a few seats unfilled.

The communications exam is infamous for its low pass rates, which average out at approximately 40%. Regularly, students get "stuck" and are forced to repeat the exam many times. This event was designed to accommodate these students, as well as prospective students, to dispel any myths and to give advice on how to pass the exam.

The meeting was divided into three sections. Initially, Mike Claffey gave an introduction to the CA3 course. This was followed by a section called "the tutor's view" by Des O'Sullivan, a lecturer in communications. Finally, Thomas Donohoe, who recently passed the exam, gave a student's perspective on CA3. This format allowed the attendees to get an idea of the exam from different viewpoints.

The introduction:

Mike began by giving an overview of the course, outlined below:

- CT and CA1 subjects are examinable material.
- Half of the marks in the exam are based on the written part, while the other half are based on the presentation (slide creation and delivery). To pass the exam, students must pass both parts.
- Two days required to sit the exam. First day is spent preparing for the exam on the second day.
- A retaker exam is available to students who have previously sat the two day exam.
- Currently the exam is only being run in 4 centres in the UK. However, as of 2012, students in Ireland can take part in an online version of the exam.

Mike then delved into preparation techniques for the exam. He advocated that students complete the pre-exam workbook and that they have a good working knowledge of the exam tools – Microsoft Word and PowerPoint.

Finally, he recommended that students spend about 50 hours studying for the exam.

The tutor's view

Des, a tutor in communications, focused his discussion on exam preparation and also gave an insight into the reasons why some people fail.

There are many different ways to prepare for the CA3 exam – tuition; work based presentation courses; practising alone or with a peer group. Preparation is key. Des spoke at length on the importance of rehearsing presentations with peers - friends, work colleagues, maybe even your boss! As a result, the student will become more confident in their ability and any bad habits can hopefully be ironed out.

The next topic for discussion was "Why People Fail". Quite often, students don't understand the question and fail the exam as a result. Structure and drafting are also areas where students can fall down. Des provided the exam marking structure to demonstrate how important these aspects are. He also gave some tips on drafting – find key points; use signposting; practice time keeping and make a presentable first draft in case you run out of time!

Finally, he advised that students keep the basics under control – don't use jargon; watch your spelling and grammar; use correct structure; avoid repetition and be careful when using numbers.

The student's view

Thomas recently passed CA3 and so was an ideal candidate to recount his experience of sitting the exam. He sat the online exam in June of this year. By learning from past mistakes and using the techniques provided in the notes, he passed the exam.

Thomas highlighted the importance of quality study. He recommended that students prepare and record presentations using the given time constraints. He advised that they write out answers to exam questions instead of reading the answers and assuming they would have written the same. In addition, he proposed that students get feedback on letters and presentations from friends.

Finally, Thomas gave advice on how to deliver a successful presentation. He advocated that students relax and take their time while presenting and that they appear emphatic and understanding. He declared that "the key to communication is showing a cool, relaxed outside even if you are really nervous on the inside".

Discussion

The evening ended with a brief question and answers session. The prevailing topic was the discussion of the online exam vs. the attendence exam. The verdict was that each individual will have a preference, depending on whether the student is happy to present to a computer screen or whether they'd prefer to communicate with people. To conclude the evening, Mike advocated the use of exam counselling for "repeat offenders".

In summary, the event was a useful session for first time students and those who are repeating. Hopefully the attendees will benefit from the session.

Sarah Hyland

Everything You Wanted to Know About Regulation… but Were Afraid to Ask

A series of lunchtime meetings organized by the Recent Qualifiers' Committee, entitled *"Everything You Wanted to Know About Regulation… but Were Afraid to Ask"*, were held in the Alexander Hotel on the 19th, 20th and 21st December.

These meetings were organised in response to a common theme in our feedback from recently qualified actuaries and senior students: while CPD events organised by the SAI are targeted at recent qualifiers as well as senior members, there is a need for some specific meetings to cater for the needs of recent qualifiers. For this reason, many recently qualified actuaries can find CPD events overly technical or demanding an assumed knowledge that they do not yet possess. The result is that CPD events can become less beneficial for this subset of the Society's membership.

In response, the committee sought to organise this series of meetings, to gauge the response and to see if there was a demand for future such meetings.

The first meeting was entitled *"Regulations in General Insurance – Everything you wanted to know…but were afraid to ask!"* and was chaired by Sinéad Kiernan. In a well-attended meeting, Dick Tulloch, Sinéad Kiernan and Sinéad Ovenden gave a thorough overview of the regulations pertaining to General Insurance, covering Corporate Governance, Statements of Actuarial Opinion, and Solvency II.

The second meeting was entitled *"Regulations in Life Insurance & Reinsurance – Everything you wanted to know…but were afraid to ask!"* and was chaired by Vincent Kelly. Sixty people defied the elements to hear Eamonn Phelan and Andrew Kay give an entertaining overview of the various set of regulations governing life and reinsurance business in Europe.

The final meeting was entitled *"Regulations in Pensions – Everything you wanted to know…but were afraid to ask!"* and was chaired by Emmet Leahy. In another well-attended meeting, Olive Reid and Aisling Kelly gave an overview of the fast-changing regulatory landscape of pensions business.

The Recent Qualifiers' Committee would welcome any comments from senior students and recent qualifiers on the usefulness of this series, and would welcome suggestions for future topics.

Vincent Kelly

Podcasts

Recordings of all SAI events are available on the Society's website at:

https://web.actuaries.ie/events/past

The Recent Qualifiers' Committee is currently researching the idea of hosting a soft skills meeting towards the end of March. The meeting will have appeal to recent qualifiers and it is hoped that all those attending the Professionalism Course in early March will attend. Full details will be posted to the Society's website shortly.

SAI Annual Christmas Table Quiz

Front Row: *L to R*

Bridget MacDonnell, Paul O'Faherty, Mary Butler, Rachel Gow, Joseph O'Dea and Kevin Manning

Back Row: *L to R*

Donal Keating, Stephen Doyle and Paul Torsney.

Another excellent quiz was held on 5th December. Once again, Kevin Manning did the honours as quiz master. As has also become traditional, we had the assistance of the Student Committee in figuring out the results. Rachel Gow and Bridget MacDonnell kept track of the scores, despite the fact that our laptop nearly gave up the ghost.

The winning team was Joseph O'Dea, Stephen Doyle, Donal Keating and Paul Torsney. Apart from having the pleasure of winning and getting Christmas hampers, the team had the privilege of choosing the charity to whom the proceeds of the quiz would be donated. They chose two charities i.e. AWARE and the Irish Cancer Society.

Before the President, Paul O'Faherty, declared the winning team, they firstly had to entertain everyone by singing the mandatory Christmas Carol.

Kevin Manning then had the novel idea of suggesting that the winning team would set the questions for the 2012 quiz and we are delighted to say that this challenge has been accepted.

A huge thanks goes to Kevin Manning for his tremendous contribution to the success of the quiz over the years.

On the Move

Fellows:	**Emma Ryan** has moved from Aviva to **AEGON Ireland**
	Olan Mooney has moved from Aviva to **Allianz Worldwide Care**
	Graham Crowley has moved from Imagine Reinsurance to **Allianz Ireland**
	Joe Byrne has moved from Willis to **Joseph G. Byrne & Sons**
Students:	**Joe Walsh** has moved from Aviva to **Caledonian Life**
	Paul Marron has moved from Mercer to **AEGON Ireland**
	Majella McDonell has moved from Aviva to **KPMG**
	Tomas Kirrane has moved from Mercer to **LCP Ireland**
	Carol Gibbons has moved from New Ireland to **AEGON Ireland**
	Rachel Gow has moved from Aviva to **Travelers Insurance**
	Robert Fitzgerald has moved from Aviva to **Allianz Ireland**
	Anne-Marie Dillon has moved from Aviva to **Deloitte & Touche**