

**O**n December 17th, an EGM of the Society was held to approve changes to the Articles of Association of the Society, and to adopt a disciplinary scheme.

There were three changes to the articles

**\* EC Actuaries**

To allow the Society to comply with the Recognition of Diplomas EC Directive, the rules of the Society were changed so that an actuary qualified in another EC member state could practice in the Republic of Ireland subject to the professional supervision of the Society.

**\* Council Membership**

The maximum number of elected and co-opted Council members were each increased to five. This change was made because of the increasing scope of the Society's activities.

**\* Disciplinary Scheme**

Certain changes to the articles were necessary to allow the introduction of a disciplinary scheme.

The disciplinary scheme is modelled on that of the Institute and was proposed with the approval of both the Institute and the Faculty. Full details were circulated to all Fellow Members.

All of the changes were approved unanimously by the meeting. They have to be formally approved by the Minister for Employment and Enterprise. When that is done, it is intended to adopt the Institute guidance notes in toto, and then review them over time and replace as necessary. A new Pensions Act guidance note will be introduced to replace GN3 immediately.

**RATING THE CREDIT PROCESS IN BANKING**

On 10th December last, Ronan O'Connor presented the paper by himself and James Golden entitled 'Rating the Credit Process in Banking'. Despite the relatively low attendance, the presentation was followed by a lively discussion which ranged beyond the content of the paper to cover many aspects of credit rating in practice.

Further copies of the paper are available from the Society offices.

*EGM*

*Pension Changes*

*Calendar of Events*

*Tax*

*Universal Life Reviews*

# UNIVERSAL LIFE POLICIES REVIEW

## - Committee Report

A working party of the Life Committee has been looking at the issue of periodic reviews of Universal Life policies. On 26th January, Micheal O'Briain, who chairs the working party, presented their report to one of the best attendances at a Society meeting for some time.

Universal Life policies appeared in the Irish market in the early 1980's, and have since become the standard policy design. Commonly the policyholder may choose between very low life cover up to cover at a high level, occasionally nearly equal to that available under a ten year term assurance policy: usually the life cover can be varied by the policyholder subject to medical evidence. There are typically no guarantees given by the life office on investment performance, expense deductions, or mortality fees.

It is common for policy conditions to provide for a review of contributions and life cover after 10 years and each five years thereafter. Review of the earliest policies sold are now beginning to fall due.

The report considered the problem from many angles:

- policyholder expectation of the review process
- life office expectations, and how they may change
- maximum protection policy reviews
- endowment mortgages and the involvement of the lender
- communication problems and original policyholder expectations
- anti-selection at review
- investment assumptions and smoothing

The report gave examples of the possible effect on sample policies of a review done on a range of assumptions: some of the results showed large increases.

Among the recommendations of the report are:

The mortality experience of the office may disimprove over time, and the office might have to increase mortality reserves, and consider differential mortality charging.

Policy design should minimise the likelihood of anti-selection by limiting automatic indexation options and insurability guarantees. The default action on review should also be carefully considered.

Communication with the policyholder at review is very important. The office should keep a record of the original illustration used at the time of sale, and explain the reasons for the changes resulting from the review. The involvement of the sellers and their remuneration will be important to the success of the process.

It will be difficult to explain a review basis that differs from that used for new business illustrations.

Education of staff and intermediaries to handle queries arising from the review process will be very important. It will also be important to have well thought out procedures for dealing with cases where the policyholder fails to respond to the review notice.

Micheal's presentation was followed by a vigorous and lengthy discussion. There was a wide divergence of views. Most of the discussion focussed on the effect of the rates of investment returns used in new business illustrations compared to the actual returns achieved. Many speakers referred to the question of the extent to which the illustrations and review bases were the responsibility directly or indirectly of the appointed actuary.

Further copies of the report are available from the Society - call Adrienne on 612427.

## Life Assurance Tax

A second 1992 Finance Act was passed in December. This did not include all the provisions in the White Paper published in mid-November. A summary of the current position is as follows:

1. From 1st January 1993 the 3% life assurance levy no longer applies.
2. From 1st January, banks, building societies and other deposit takers can offer Special Savings Accounts. Interest on these accounts has 10% tax deducted, and is then liable to no further tax. These accounts are open to Revenue scrutiny. The maximum amount that can be invested in a Special Savings Account is £50,000 for a single person, or £100,000 per married couple. Only one SSA can be held at any time by an investor.
3. There was no change to the taxation of life assurance companies made in the Finance Act. However, the Minister for Finance did undertake to make the proposed changes in the 1993 Budget (probably mid-February) and to backdate them to January 1st. These changes are:
  - unfranked income taxed at 27%
  - franked income grossed up by the tax credit and taxed at 27%
  - no capital gains indexation
  - non-gilt gains subject to deemed disposal each year, and taxed at 27%, payable over seven years
  - gilt gains subject to 27% tax on disposal without spreading
- existing non-gilt gains deemed disposed at 31.12.92, subject to tax at 40%, spread over seven years. Any loss arising would not have to be spread.

Clarification of the provisions of the new tax rules made clear that franked income could continue to be used to offset corporation tax liability.

4. There was no provision in the Finance Act for Special Investment Policies (10% Funds).

The Minister said that an announcement would be made allowing sales of such policies to begin, and the 1993 Finance Act would backdate the SIA provisions to the announcement date. This announcement was made at the end of January. However, the rules of Special Savings Accounts are that anyone with a Special Investment Account may invest a maximum of £25,000 (£50,000 per married couple), so that anyone who has invested more than this amount already cannot open an SIA.

## Pensions Act

During December, regulations were signed by the Minister to bring a number of provisions into force from 1.1.1993. These were:

### (a) Equal Treatment

The rules of pension schemes must be changed to allow for equal treatment as set out below. If not, the provisions of the regulations will override the scheme rules.

- (\*) Employers must allow equal access to pensions schemes to male and female employees
- (\*) From 1st January, pension scheme rules must not differentiate between male and female members for benefits in respect of service since 17th May 1990. If the rules do differentiate, the more favourable treatment will apply to both sexes.

- (\*) Entitlements in respect of pre-May 1990 service can continue to discriminate for up to 6 years, and for 25 years in the case of retirement ages.

### (b) Contribution Refunds

From 1st January, no refunds of members' contributions may be given on withdrawal in respect of service since 1st January 1990, except if the member has less than two years service. Contributions made before that date may still be refunded, but are subject to tax of 25%

The Update is intended to make members aware of events that may be relevant. However, the information given is not intended to be a comprehensive summary.

## Appointments

A service is now available from the Society to issue appointment circulars to members.

*Further details and costs are available from Brendan Kennedy on 704 2459.*

## Groupe Consultatif

**Paul Kelly** has recently been elected Second Vice-Chairman of the Groupe Consultatif, which is the umbrella organisation for all EC actuarial bodies. This means that Paul is likely to become Chairman in 1994.

## Circulation

The newsletter is sent to all fellow, associate and student members of the Society both in Ireland and Overseas, and is made available to students studying for actuarial degrees in UCD and DCU. If you have anything that might be of interest to any of these, contact Bryan O'Connor at 751888.

**Patrick Carroll** is addressing a meeting in UCD entitled 'Pensions Research and the Demographic Context in Ireland and England'. The meeting is on 19th February at 4.00 p.m. in room L552 in the library building: further details are available from the Department of Statistics.

## On the move ....

**Sheelagh Bedlow** has left New Ireland to join GRE Life

**Jonathan Goold** has moved from the UK to join NZI in Galway

**Paul McNamara** has joined McKinseys in the UK from Lifetime

## Calendar

*All meetings other than the Annual Dinner are at 6.00 p.m. for 6.30 p.m. Members will be circulated with full details before each meeting.*

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| <b>2nd March</b>  | Faculty President's Visit<br>(John McCutcheon)<br>Dinner, Stephen's Green Club                     |
| <b>30th April</b> | Annual Dinner<br>Royal College of Physicians   |
| <b>4th May</b>    | Meeting on Unitised With-Profits<br>(John O'Neill & Howard Froggatt, London)<br>Followed by Dinner |
| <b>16th June</b>  | Annual General Meeting<br>Institution of Engineers   |
| <b>May/June</b>   | Golf Outing<br>Arrangements to be confirmed  |