

Commentary

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BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Boston International Actuarial Colloquium

A Colloquium of the International Association of Consulting Actuaries (IACA) and the Pensions, Benefits, Social Security (PBSS) and Health (IAAHS) Sections of the International Actuarial Association (IAA), took place in Boston in May. This was an internationally diverse colloquium with 200 delegates from 34 countries. Although predominantly focused on pensions, social security and health issues, the program featured sessions from all areas of traditional practice, as well as some new areas, such as enterprise risk management, microinsurance for the poor in developing countries, and a unique project of determining the liabilities in respect of environmental reclamation and restoration of coal-mining sites. In the opening session David Hartman, President of the IAA, discussed a vision for the global actuarial profession and the strategic plan of the IAA. The Chairmen of the three participating IAA Sections, Mike Toothman (IACA), Chris Daykin (PBSS) and Howard Bolnick (IAAHS) took part in a panel discussion, in which they gave their assessment of the areas of greatest change over the next ten years, and what actuaries will need to do to meet those challenges. A notable message from the colloquium was the need for actuaries to take time to understand the broader environment and the potential impact that the results of technical actuarial work might have. In both the social security and health fields, actuaries need to work alongside economists and other technical experts, many of whom have traditionally been much more broadly focused than actuaries. In total there were 25 submitted papers and 48 sessions. The program is on the IAA website at www.actuaries.org/Boston2008/Program_EN.cfm with links to all the papers and presentations.

Keynote addresses were given by: David Hartman, President, IAA on *Global Challenges and Opportunities facing the Actuarial Profession*; Alicia H Munnell,

Peter F. Drucker Professor of Management Sciences, Boston College on *Retirements at Risk: The Changing Landscape of Retirement in the US*; and David M. Walker, President, Peter G. Peterson Foundation on *Economic and Retirement Insecurity*. The keynote speakers made stimulating presentations, illustrating the challenges facing the US in retirement policy and in bringing the costs of Medicare and Medicaid under control. Their incisive analysis clearly raised important implications for the public policy profile of the actuarial profession in the US and significant lessons to be learnt for those attending the colloquium from other countries. In the pensions and social security area, presentations emphasized the challenges facing many countries to reform unsustainable social security and pensions systems, to evaluate, modernize and make incremental improvements where reforms have already been carried out, to widen coverage to a broader cross-section of the population, to avoid or restrict perverse incentives for early retirement and to encourage more people to work longer in order to achieve greater adequacy of retirement income and achieve a more sustainable apportionment of increasing lifespan between working life and retirement. Several papers considered the application to other countries of actuarial accounting and automatic balancing mechanisms, as in the Swedish Notional Defined Contribution reform; others considered whether such a reform could be applicable to their environment. Some papers were concerned with the trend from Defined Benefit (DB) to Defined Contribution (DC) plans and the evolution of retirement benefits in the new environment. There were presentations on the macroeconomic funding implications of the move from DB to DC and on investment choices, default investment options and the governance of DC plans. Papers addressed some technical issues arising from accounting standards

and the volatility of market values, including the valuation of financial options in pensions and the application of Liability Driven Investment. Non-financial actuarial assumptions in pensions included presentations on mortality and a paper on withdrawal decrements. The actuarial profession has many opportunities to adapt to a rapidly changing world, with many exciting challenges ahead, for which actuaries have strong competitive advantages, including handling issues of future uncertainty, understanding concepts of finance and discounting future cash flows, the ability to evaluate guarantees, and play a key role in risk management of entities in the financial sector. The framework of professional codes and technical standards set by actuarial professional bodies is also significant. However, actuaries need to broaden their narrow comfort zone and focus on the broader contextual and environmental issues, including active engagement with politicians and the media. There is also a need for actuaries with new skills in a future environment dominated by DC pensions, and there is a challenge for the actuarial profession in the development of alternative risk-sharing solutions between the DB and DC ends of the spectrum of pension arrangements. There is also an urgent need to develop new ways of sharing investment and longevity risk in the pay-out phase, whilst addressing the need for flexibility to meet different requirements for providing old-age income support.

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