

Commentary

BUFFIN PARTNERS INC.

INVESTMENT AND ACTUARIAL RESEARCH

International Perspectives

Pension expense accounting is of concern in many countries. Local national practices differ widely in the valuation of pension plan assets, actuarial valuation method, discount rate, actuarial and investment gains and losses, prior service costs, minimum liabilities and other arcane items. It is however encouraging to note the emerging dialogue over convergence of local country standards toward a uniform international standard and the participation of the Financial Accounting Standards Board (FASB) in discussions with the International Accounting Standards Board (IASB) over areas of concern. Although many European countries have moved to adopt IASB standards, major holdouts are Japan, Canada, United Kingdom and United States. FASB has issued a report on the subject of International Accounting Standard Setting entitled "A Vision for the Future." This report contemplates the establishment of three organizations that would oversee the operation of a global accounting system. The three organizations would comprise an International Standard Setter (ISS), an International Interpretations Committee (IIC) and an International Professional Group (IPG). ISS would be the decision-making body that develops and promulgates international standards. IIC would be an organization designed to address issues arising from the application of international accounting standards. IPG would be an international organization of accounting professionals comprising national professional organizations that would facilitate the application of international standards by helping ensure compliance via dissemination of the standards at the national level.

There are over 40 million individuals in the United States without medical insurance coverage. By contrast, in Canada, the United Kingdom and many other nations, the entire population is guaranteed access

to medical care. The Canadian and UK healthcare systems are based on the fundamental principle of universal access that ensures that even the poorest individuals have access to healthcare, that individuals are not exposed to the risk of bankruptcy by the costs of needed healthcare services and that all individuals are protected against catastrophic illness and injuries. This fundamental principle reflects underlying core values of fairness, compassion, equality of opportunity and social solidarity. In the United States, comprehensive healthcare coverage for every individual is regarded as too expensive and the existing Medicare system is criticized as being unsustainable with its escalating costs running out of control. Opponents of equality of access to healthcare argue that market-based healthcare provision is the only means of guaranteeing healthcare at affordable prices. In a market-based healthcare system, efforts to control costs inevitably shift financial risk away from large groups toward the individual consumer. When the financial risks of ill-health fall on individuals, those with higher incomes are able to purchase a reasonable standard of care without sharing the financial risks of the less fortunate members of society, thus placing emphasis on self-reliance rather than social solidarity. The Heritage Foundation recently prepared a profile of the 40 million uninsured and discovered that they are mostly middle class individuals, with about three-quarters of the uninsured of working age actively employed in the workforce. About one-third have annual household income over \$50,000 and about two-thirds are under age 35. Many individuals become uninsured on losing or changing their jobs.

During most of the twentieth century, inflation was recognized as the dominant economic force that occupied the hearts and minds of economists and politicians.

However, as Japan experienced its post-bubble economic downturn, deflation risks became the primary concern with a new focus on the global implications of spreading deflationary forces. Now, with the United States economy working its way through the difficulties of its own post-bubble adjustments, there is evidence of both deflationary and reflationary forces at work, impacting different sectors of the economy. The inflation rate, as measured by the Consumer Price Index, has been in a pronounced downtrend falling to a range of 1%-2%, and with some economists, until recently, predicting a continuing trend toward zero inflation. As the Federal Reserve implemented its policy of successive cuts in interest rates, the benchmark Federal Funds rate fell to 1.25% and Federal Reserve Chairman Alan Greenspan recently stated that the Fed is extraordinarily sensitive to the perils of deflation. Various strategies to weaken the US dollar and so increase the attractiveness of exported products are widely discussed as potential measures to combat the threat of deflation. But as we enter the New Year, reflationary policies and economic stimulus proposals are now influencing the future assessments of economic growth, inflation and interest rates, with significant ramifications for the equity and bond markets. Fears of deflation are now receding as the new realities of reflation take hold. Some economists now anticipate a reversal of the trend, with inflation reaching a rate of 2.5%-3% within the current year.

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