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International News

Nova Scotia Grows Old

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By Lindy DeCoste

International News

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This newsletter is free to section members. Current issues are available on the SOA website (www.soa.org).

To join the section, SOA members and non-members can locate a membership form on the International Section Web page at http://www.soa.org/International/.

Editor's Note

By Vincent Xuan

Just like you who are turning pages during a break on a busy day, I was attracted to volunteer here by an eye-opening article in *International News* three years ago. I forgot what I read but know clearly what leads to a reader's satisfaction. As the new lead editor, I perceive the responsibilities of serving thousands of actuaries across the globe both challenging and exciting. When you take a break at the office, ride a train, or before sleep, you open the newsletter, read a few pages and get in touch with international peers. That is really what makes us feel fulfilled and passionate.

Thank you to Carl Hansen for passing the torch with trust and belief. Carl has led the editorial front for numerous years, and recently stepped down to allow the opportunities for fresh ideas. His dedication to details, collaboration with peers, and gentle style served as a role model for volunteers. Fortunately he will stay with us for another couple of issues to ensure a seamless transition. Our editor Jill Hoffman has informed the board of her leaving. We want to thank her for the persistent contributions in the past few years and wish her all the best in future volunteer endeavors.

The transition is not only a preservation of previous knowledge and heritage, but also an infusion of new passion and influence. We are delighted to welcome Alex Slivinski from Towers Watson to join the board and contribute. As a major board-reenergizing initiative, in June we have launched a recruiting event to amplify the team power. After a rigorous selection process, we are proud to unveil the new editorial board members (see page 2). Based on one's background and specialty, each is assigned to lead a continent's editing and sourcing efforts. Please wait on our next issue for a more detailed board member introduction.

In this issue, we are excited to announce and publish the first place winner of the 2015 Country Feature Competition—"Nova Scotia Grows Old" by Lindy DeCoste, along with two carefully selected runner-ups. We welcome more and more excellent articles from you for next year's competition. This issue also updates you on a few international collaboration progresses, highlighted by the signed Memorandum of Understanding between the Society of Actuaries (SOA) and the China Association of Actuaries (CAA).

Our editorial board will continue to serve as the bridge between the section council and the members. The communication should not be one-way, but rather be interactive and two-directional. You will hear more initiatives from us to make the board more valuable to you. Please stay tuned! ■

Vincent Xuan, FSA, CFA, MAAA, is a director & actuary at Prudential Financial in New Jersey, United States. He can be reached at *xu.xuan@prudential.com*.

Chairperson's Corner

By Carlos Arocha

2015 is in full swing for the International Section! We received several entries for our Country Feature Competition, and the section council has already chosen the winners of the $1,000 and $500 cash prizes. We are strengthening our Ambassador Program with more in the works. We are actively engaged in the Society of Actuaries' (SOA's) International Committee whose responsibility is establishing and maintaining cross-functional international policy oversight and direction for activities of the SOA outside the United States and Canada. In fact the SOA has hired a new international senior director, signaling the SOA's intention of becoming a truly global association. While the SOA is a binational association, over 35 percent of current candidates write exams outside the United States/Canada, and more than half our candidates are of a foreign nationality. I am happy to report that quite a few expressions of interest for a seat at the International Council were received, and a large proportion of them came from people around the globe.

In the midst of a very hot summer in Europe, I'd like to touch on three topics that I believe are important and relevant to our section members. But first I want to express my gratitude to Carl Hansen for his long and meaningful contribution as editor of *International News* and to extend a warm welcome to Xu (Vincent) Xuan, who takes over as the new editor.

The first topic: I had the privilege of representing the International Section at the Council of Section Chairs meeting in Chicago last April. I met leaders of other sections and discussed ways we can get together. This is not a difficult task indeed: Many sections are looking forward to expanding their outreach at the international level, and since our section is multidisciplinary, I believe we can pull off the job of intersection cooperation. We are now working on three webcasts in collaboration with other sections: Global Social Security Reforms, Global Solvency Standards and Enterprise Data Management. Your section council will be exploring ways in which we can facilitate and aggregate such efforts with the goal of providing our section members with accessible information on topics in which they are interested.[1] We are also working with the Actuary of the Future Section in organizing half-day events at universities outside the United States and Canada where we will be providing information about becoming an actuary and working internationally to young actuarial candidates and other students interested in the actuarial profession.[2]

Second topic: The International Actuarial Association (IAA) Council & Committee Meetings took place in Zurich in April 2015. The SOA was represented by a large delegation including presidential officers, executive staff and members of the various IAA committees. Topics such as insurance regulation, revision of the International Association of Insurance Supervisors' Insurance Core Principles, Own Risk and Solvency Assessment (ORSA) and other Solvency II issues, a risk management e-book project, and the proposed syllabus of the IAA were discussed. The CERA credential is now awarded by 16 actuarial associations worldwide, and we have now passed the 2,600-member mark. Last but not least, the SOA also offered a reception where representatives from a few actuarial associations were invited. All in all we had a wonderful experience in connecting with members of the global actuarial community. If you want to know more please visit the IAA website at *www.actuaries.org* or send me a note.

Third topic: I thought I would take this opportunity to solicit feedback from our section membership as to ways we can improve upon our contributions in the future. At this point we sponsor various research projects, lead the Ambassadors Program, sponsor a mentoring initiative, coordinate webcasts, publish newsletters and organize International Financial Reporting Standards (IFRS) seminars and other sessions at SOA meetings. What else can we be doing? Once we get input on ways we can further provide value to our section members, we will reach back to our members and friends to assist in making these ideas a reality.

These are indeed exciting times to be involved in our profession internationally! Following our mission we foster connections. Whether it is connection with other SOA sections, connecting with experiences from other countries, or connecting to the SOA strategy through the International Committee, global actuarial connections are vital in our increasingly global business community. Let us stay connected! ■

ENDNOTES

[1] If you would like to suggest a topic of global relevance, please send a note to Graydon Bennett, council secretary, at *graydonbennett@generali-guernsey.com.*

[2] If you would like to suggest a university or college outside the United States/Canada, please send a note to council member Athena Tsouderou at *athenatsouderou@gmail.com.*

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Nova Scotia Grows Old

By Lindy DeCoste

Nova Scotia is one of Canada's oldest provinces, with the earliest known settlements dating back to at least 1605 and a depth of history that could rival any North American location. Its name conjures images of ocean views, seafood and kitchen parties.

Although Nova Scotia carries plenty of appeal, in recent times the province has been facing many challenges—a main point of contention being the ability for youth to establish gainful employment in the province. As more lucrative, more diverse, and more numerous job opportunities are being created west of the Maritime Provinces, we see the general exodus of our university and college graduates. These young people who graduate, originally from both outside and inside the province, often leave Nova Scotia for their careers, only returning should the opportunity and desire present itself years or even decades later.

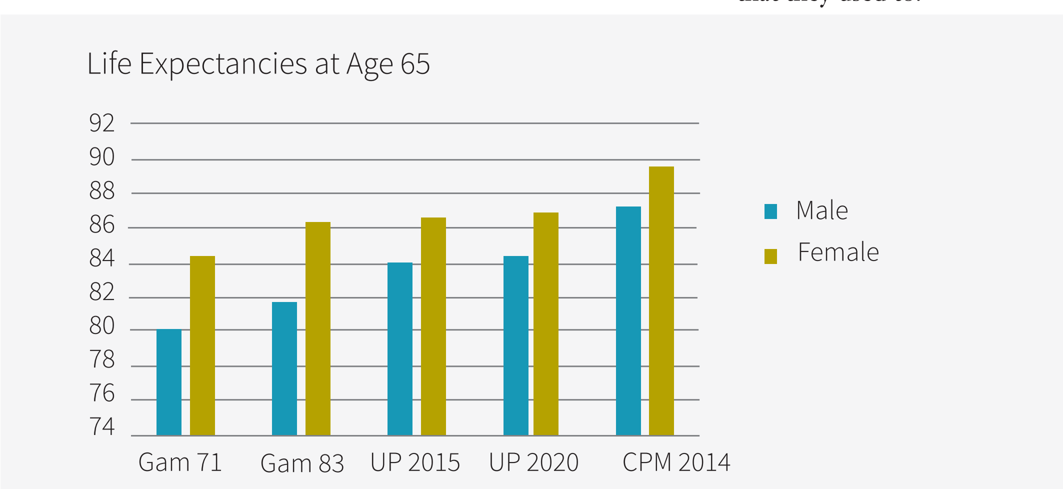
There are many problems that can stem from this—from the diminishing downtown core of the capital city, Halifax, giving way to the increasing suburban sprawl, to the disproportionately high health care costs that the province faces in tandem with its aging population.

Of the central issues in having a diminished youth workforce in Nova Scotia, two main problems emerge.

As the median age of the province grew from 38.8 to 43.7 from 2001 to 2011, the ratio of people leaving the workforce compared to those entering it steadily rose. This complicates Nova Scotian income tax revenue as many move away from the province during their prime earning years. An additional central issue spawned by an aging population is the financial security of people in and entering retirement. The quantity and quality of today's pensions aren't the strength they used to be. The mitigation of these two problems will be key to the overall success of Nova Scotia in the years to come.

PENSION STATUS LEFT UNDEFINED

As many industry-dependent small towns in Nova Scotia face threats of losing their main source of livelihood, the once-solid pension reliability of those in all stages of employment is called into question. From new recruits to those long retired, the same stable and meaningful pension benefits don't exist in the same way that they used to.



Changes in life expectancy among various mortality tables, from less recent (left) to most recent (right) (Society of Actuaries, 2014)

The number of working adults in Nova Scotia with a meaningful pension has dropped sharply over the decades. There are two points to mention about this:

- Defined-benefit (DB) pension plans are disappearing to make room for defined-contribution (DC) plans and other, less secure forms of retirement saving vehicles. The remaining DB plans are largely held by public service employees, which make up about 5 percent of Nova Scotia's population. These plans are a financial burden on the taxpayers.
- Stark increases in life expectancy predictions over the last few years, as seen in the chart at the bottom of the page, make DB plans even more costly and unpredictable for employers. Along with rising health care costs and inflation, standard of living for the elderly is poised to decline.

In February 2014, the Canadian Institute of Actuaries released its final report on Canadian Pensioners' Mortality. Previously, mortality information in Canada was based on American experience. This study demonstrated that Canadians live much longer than previously expected. Over the past 20 years, the average life expectancy has increased by 5.40 years for men and 3.10 years for women. This has significant impact on the slumping, and exceedingly costly, DB plans.

All of Canada is seeing a trend moving away from DB pension plans, to the more manageable and less-costly DC plan; however, this trend is not progressing at the same rate in public and private sector plans. In the Canadian public sector, the ratio of members covered by DB plans compared to DC plans is 20 to 1 (Statistics Canada, 2014).

This puts a tremendous financial burden on taxpayers, including Nova Scotians whose public service employees largely possess DB plans that will create a tax revenue drain on the province. Furthermore, a large, continuous portion of the labor force will retire in the near future, and the strain on provincial resources will be great.

All of this considered, it is not surprising to learn of the controversy that is created from the very worthwhile and taxpayer-intensive pensions that public workers receive. If you compare the Nova Scotian labor force, which was 499,000 people in 2014, to the 48,000 publicly employed people in 2013, you'll notice almost 10 percent eligibly employed Nova Scotians will have their DB pension publicly funded (Community Foundation of Nova Scotia, 2014) (Statistics Canada, 2014).

The economics of Nova Scotia, or any province, depend heavily on the income taxes paid by the general working population. The situation grows precarious as a statistically noticeable gap forms in the age 25 to 35 demographic.

The overall effect of an aging province has many complications. One relevant fact is there are far more people in and nearing retirement than there are in and entering the workforce. For a long time you would have a relatively steady and balanced number of people in different stages of maturity and employment, but for the first time since the available records began in 1921, there are more people over 40 in Nova Scotia than under 40 (Statistics Canada, 2014). Although Nova Scotia is not the only province that shares this statistic, it illustrates how combined with young graduates and workers moving away, it will be a difficult balance to adequately fund our public pension and health care costs in the future.

The pension issue remains divided in Nova Scotia. On the one hand we need to keep an attractive compensation package for public service employees; these are positions that very much influence tomorrow's better Nova Scotia. On the other hand, reasonableness needs to prevail when setting pension and livelihood expectations for Nova Scotia's aging demographic during the less-certain economic climate.

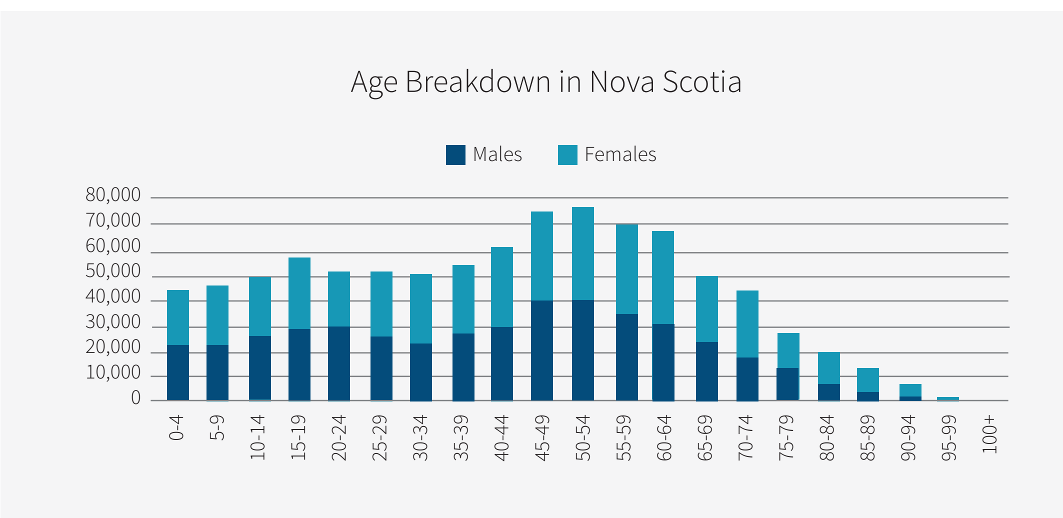
As Nova Scotians enjoy the benefits of living further into their golden years, it is reasonable to expect that the publicly funded pension and health care systems will be stressed as costs rise. Nova Scotia will walk the line of properly caring for its elderly and marginalizing a large portion with more taxes.

MISSED YOUTH, MISSED TAXES

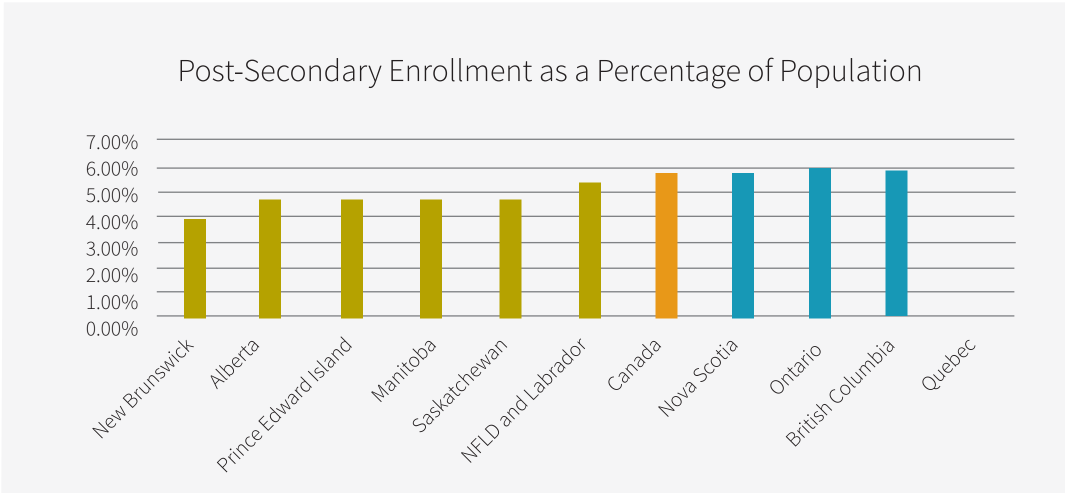
The economics of Nova Scotia, or any province, depend heavily on the income taxes paid by the general working population. The situation grows precarious as a statistically noticeable gap forms in the age 25 to 35 demographic.

Many of the individuals in this age group are reliably moving west for a bulk of their productive working lives, leaving Nova Scotia with a smaller tax income and growing future concern.

To get an idea of the financial implications for the amount of young people leaving, we'll consider an example. Assuming starting salaries of $30,000, with salary increases at 3 percent each year over a 35-year career would result in tax revenue of $166,000 (using a discount rate of 6 percent and assumed long-term inflation of 2 percent). When you consider that each year approximately 14,000 students graduate from post-secondary institutions in Nova Scotia, and less than half will stay in province, the result is almost $1 billion in lost tax revenue for each cohort of stu-



(Statistics Canada, 2014)



dents that are unsuccessfully retained in Nova Scotia.

Considering that, per capita, Nova Scotia ranks fourth in Canada and above the national average for post-secondary enrollment, the dramatic migration out of province once graduating becomes even more apparent (Statistics Canada, 2014).

The situation is exacerbated by the current demographic layout previously mentioned. More aging baby boomers are holding onto their professional roles for longer as a result of their retirement savings made more uncertain due to the recent recession. Because general flow through these positions has stagnated at the top, it has created a buildup of demand for related positions further down the ladder, which inevitably go toward the more experienced and older applicants. Simply put, during 2004 to 2013 the Nova Scotian labor force between the ages of 15 and 44 shrunk by 31.1 percent, while in Canada the same figure grew by 4.2 percent (Community Foundation of Nova Scotia, 2014).

OUTLOOK FOR THE FUTURE

Nova Scotia is facing both an aging population and the outward migration of youth. This issue is being complicated at both ends of the employment spectrum, by the higher cost demand retirees require of their health and pension entitlements, and the lack of financial input by the entry- and midlevel employees. Both the private and public sectors are entering a stage where pension payouts will be vast and become incredibly taxing on organizations. As retirees become more numerous and live longer lives, this problem will only compound itself for the short-term future. Sooner than later, this income tax gap created by the vacant 25 to 34 age group will be a problem for both the public and private sector.

There is no doubt that Nova Scotia could be one of Canada's leading-edge provinces for attracting new residents, especially young people. The province has excellent establishments in education, natural resources, diversity of cultures, and scenic beauty. All of this creates great potential to further engrain itself as a Canadian mainstay for growth and opportunity, but like anything worth showcasing, serious commitment needs to be taken to mitigate the underlying issues. ■

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Basic Life Insurance Is Not for Everyone in the World

A view into the relatively low level of basic life insurance sales in Switzerland

By Ronnie Klein

In case you have not heard, *The Jobs Rated Almanac* voted the actuarial profession as the No. 1 profession in the United States in 2015. This is not the first time our profession topped the list and it will not be the last time. I realize that many of you are saying: "Low stress? Come and work at my job!" But, on average, we have the best job in the United States, at least according to the experts at *The Jobs Rated Almanac.*

One job you will not see on the list of the top 200 is that for a used car salesperson. I do not know why used car salespeople get such a bad rap. They provide a needed service to many people in search of a low-cost automobile. In fact, we could all learn a bit from these professionals. My favorite used car salesman is from the movie "True Lies"—portrayed by Bill Paxton. Simon, Paxton's name in the movie, is a sleazy used car salesman who is after Harry's (Arnold Schwarzenegger's) wife (Jamie Lee Curtis). Harry is an elite secret agent and decides to have some fun with Simon by first acting interested in a used car on Simon's lot and then kidnapping him and scaring him by holding Simon over a cliff. When Simon realizes that it is Harry who is dangling him over a certain death, the only thing he can say is: "It's you. Are you still interested in that car?" This guy will go to extremes to make a sale.

The only thing I could think of the first time I saw the movie was what a great life insurance salesman Simon would make. Okay, so life insurance salesperson is also not on the list (although financial planner shows up as No. 22). But I think that life insurance salespeople also get a bad rap. We who work in the life insurance industry are fortunate to be in such a noble profession. The basic tenet of life insurance is that in return for a relatively small annual premium, a family's breadwinner can protect his or her family in case of his or her premature death. The insurance benefit can return the surviving family to some degree of financial normalcy including retaining a home or sending children to college.

When I first began to work internationally, I often wondered why more basic life insurance is not purchased in certain countries, for example Switzerland (my home country). Switzerland is a very rich country and the average lifestyle is quite good. Why does the average Swiss citizen not own an individual life insurance policy? Are the products poorly designed? Do the agents need lessons from Simon?

What I finally learned upon moving to Switzerland is that the financial setup is different than that of the United States. First, in general, people do not own homes. Most people rent their residences. How can this be when we in the United States call owning a home the American dream? There are three basic reasons that the typical Swiss does not own his or her home: 1) culture, which is difficult to really understand; 2) a large retirement savings mentality, which leaves less chunky income to use as a down payment; and 3) the imputed income charged on the homeowner equal to the rental income the owner would receive if he or she would rent the home out. This income is set by the local government and is relatively substantial. So, for example, I must show as income on my tax returns (yes returns—Swiss and U.S.) how much the government says that I would earn annually if I rented out my house. Ouch! And yes, I am not the typical Swiss citizen so I do own my home and pay taxes on imputed income. I guess I am living the American dream in Switzerland. This imputed income could be a major reason why the Swiss rent as opposed to own.

Let us now look at the benefits that the companies provide to their employees payable upon their death. In the United States, it is common for an employee to receive some amount of group life insurance—one, two or three times salary, for example. Not so in Switzerland. Here employees receive a pension benefit equal to a certain percentage of salary continuing to be paid to the surviving family members until certain events. So, my wife would receive 40 percent of my salary until her retirement and my children would receive 20 percent of my salary until emancipation.

The last piece of the puzzle is that only about 20 percent of the population goes to college and college is (relatively) free. So, there is no need to save a lump sum amount for college.

To summarize, the average person does not have a mortgage, does not need to save for college, and his or her family is protected with continued salary payments. Why then would someone require additional individual life insurance? The answer is, they do not and that is why the traditional life insurance policy is not sold in Switzerland often.

Of course, there are other types of policies sold. Believe it or not, "old-fashioned" endowment policies are sold as well as other savings plans. So, when I first learned about the low life insurance sales in Switzerland, I judged our staff managing the Swiss market to be underperformers. When I finally learned about the market, I changed my opinion dramatically. I guess, before judging too harshly, I should have done my research. Sometimes it is difficult to fully research a topic unless you spend a considerable amount of time in that market. That is why I enjoy working in our profession internationally, and that is why I love living in other countries. Living in a country really gives you a view into the culture that you do not receive by reading a book or visiting the country for a few days.

As much as we struggle with cultures of other countries with respect to life insurance, other countries struggle with U.S. culture as well. My favorite story is when I had to explain to the local Swiss Regulator, *Eidgenössischen Finanzmarktaufsicht* (FINMA), about a reinsurance transaction that I structured. It was a relatively routine transaction that reinsured level term insurance business from our Seattle company to our Swiss company. Due to the size of the transaction, we wanted to alert FINMA of the transaction before it appeared on our year-end statement.

The plan for our meeting with FINMA was that I would spend five or so minutes on the product and 15 or so minutes on the transaction structure including risk, financing, reserving and profitability. We sent in a five-card deck of slides about a week prior to the meeting. Needless to say, the meeting did not go as planned.

The first question should have alerted me to the fact that the FINMA representatives

did not really understand the slides. "Can you please explain the benefits of the product?" I responded by saying that it is level term insurance with the same annual premiums paid for 10, 20 or 30 years. "But, what is the benefit?" I was struggling to understand what part of term insurance they did not understand. "What benefit does the policyholder receive at the end of the level period?" "Nothing." "What if the policyholder lapses?" "Nothing." "Cash value?" "Nothing." "So why would someone buy this?" "If the person dies, they receive the face amount." "But what if he or she does not die?" "Nothing." Then I had a brainstorm (more like brain drizzle). "The cost is about US$1 per US$1,000 of coverage for a 40-year-old male." The regulator suddenly understood by remarking how cheap that was. The next question was amazing—"Can I buy some?" If I were Simon, I would have had an application in my briefcase!

Actually, what I was really thinking was that we need an international LEARN initiative. If you are not familiar with LEARN, it is an initiative that we started while I was chair of the Reinsurance Section to educate regulators in the United States about insurance and reinsurance. The program has been quite successful with many regulators asking for repeat visits. Maybe the International Section should learn about LEARN and consider taking the program global. Hint. Hint.

This is a simple example of multiple experiences that I have had working in many markets around the world. Taking the time to learn the market and taking the time to teach others, especially regulators, about products from other markets is crucial in successful management of a line of business. With the new focus on international expansion and with the assistance of the International Section, I hope that the actuarial profession will be catapulted to No. 1 in the world—and, I also hope that used car salesperson makes the top 200 list of *The Jobs Rated Almanac* best jobs next year! ■

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LIVING to 100

SOCIETY OF ACTUARIES
INTERNATIONAL SYMPOSIUM

Living to 100 Symposium | January 4–6, 2017 | Orlando, Florida

Call for Papers

The Committee on Living to 100 Research Symposia requests professionals, knowledgeable in the important area of longevity and its consequences, to prepare a high quality paper for presentation for the 2017 Living to 100 Symposium in Orlando, Florida. The topics of interest include, but are not limited to:

- Theories on how and why we age;
- Methodologies for estimating future rates of survival;
- Implications for society, institutions and individuals, as well as changes needed to support a growing aging population; and
- Applications of existing or new longevity theories and methods for actuarial practice.

Please submit an abstract or outline of your proposed paper by Sept. 30, 2015. The abstract should include a brief description of the subject of the paper, data sources and methods to be used, key items to be covered, and how your paper will contribute to current knowledge, theory and/or methodology.

A brief curriculum vitae or resume is also required.
Submit the information by email to:

Jan Schuh
Sr. Research Administrator
Email: *jschuh@soa.org*

Learn more about the call for papers, including the complete topic list, by going to Livingto100.soa.org. Questions may be directed to Ronora Stryker, Research Actuary, at *rstryker@soa.org*.

De-Risking of Global Pension Liabilities

By Norman Dreger

The trend for employers to move from defined-benefit (DB) to defined-contribution (DC) pension plans is a global phenomenon. Many multinational companies now have pension guidelines that encourage or even require pension provision to be granted using a DC approach, and some emerging economies without long-standing pension systems have skipped DB benefit provision altogether.

Unfortunately for plan sponsors, moving to DC for new hires or for future services does not mean that the pension liabilities arising from historic DB pension arrangements will just disappear. Thanks to the long-term nature of pensions, many companies, even those who have closed their major DB pension plans long ago, still have material pension liabilities in their balance sheet. In such cases, the liabilities typically do not form part of an ongoing human resources (HR) or workforce planning strategy; they are in many respects simply historic financial obligations that need to be managed down.

In light of this, many companies are looking for ways to settle their pension obligations, or use other strategies in order to reduce balance sheet volatility and risk exposure to DB pensions.

The approaches to pension provision and the legal framework and regulatory requirements placed on pension plans will vary from country to country, often dramatically. As such, the solutions employed to deal with historic pension obligations will also generally need to be country-specific. There are, however, three basic strategies that can be used to reduce a company's risk exposure to DB pension plans:

1. **Transfer risk to a third party, such as an insurance company:** Examples of this are "buyouts" (transferring the full obligation for certain benefits from a pension plan to an insurance company) and "buy-ins" (purchasing insurance to fund the pension obligations, which is then held as an asset in the pension fund). Risk transfer typically comes with a price tag, however, and some companies that may like to remove their pension obligations in this manner might not be able to do so for financial reasons, at least not right away.
2. **Agreements with beneficiaries to cash out/alter benefits:** In some countries, it is possible to agree with certain beneficiaries to pay a lump-sum settlement amount in lieu of pension entitlements (pension cash-out). It is also possible that only a portion of the benefits be altered; as an example, it is sometimes possible to agree with pensioners that they will receive an increased pension immediately, in lieu of receiving future pension indexing, thereby reducing the company's exposure to inflation risk.
3. **Funding using liability-driven investment (LDI) techniques:** Simply put, assets can be purchased and held, which are expected to develop in a similar manner as the liabilities. For instance, if the liabilities are sensitive to inflation, inflation swaps could be purchased that would increase in value in a high-inflation environment, thereby negating the increase in liabilities. Longevity swaps are also available in some countries, which protect a company against unexpected and unreserved increases in life expectancy of the underlying beneficiary population.

In practice, often a combination of approaches is applied. As an example, a company that is interested in transferring its pension obligations to an insurance company, but does not currently have the money to do so, might initially choose to implement an LDI investment strategy, combined with a mid-term funding strategy, with the goal of buying out the liabilities after a certain number of years. As agreements with beneficiaries to cash out benefits are often less expensive to implement than risk transfer to an insurance company, companies may want to start with a voluntary pension cash-out program first, before settling the remaining liabilities with an insurance company as a second step.

MANAGING HISTORICAL PENSION OBLIGATIONS IN MULTIPLE COUNTRIES

Pension law can vary dramatically from country to country, but despite these differences, pension laws around the world typically have one thing in common: They are complicated. As such, while the fundamental de-risking strategies to be employed are broadly consistent, these will need to be tailored to reflect the pension environment in a given country.

Below we look at several examples of approaches used to mitigate historical pension obligations in several countries: Germany, the United Kingdom and Canada.

GERMANY

There are a number of different options available for companies to de-risk their DB pension plans in Germany. One approach that is currently quite attractive to many companies is to offer lump-sum payments to pensioners in order to settle their pension benefits. The amounts offered to pensioners are typically oriented toward the German-GAAP (HGB) liability; as this liability is determined based on a seven-year moving average of market rates, under current market conditions, the HGB liability is typically 20 to 30 percent lower

than the liability (DBO) under International Accounting Standard (IAS) 19 in respect of the same benefits. If cashed out in this manner, the difference between the German-GAAP liability and the IAS 19 liability is shown as a settlement gain under IAS 19; thus when such an approach is used, not only does it result in the removal of pension liabilities from a company's balance sheet, it also results in potentially substantial incremental earnings from operations due to the settlement gains.

As many de-risking and risk-transfer activities available around the world require companies to pay more than the amount they are showing in respect of the liabilities in their international balance sheet, many activities will typically lead to accounting losses and negative profit-and-loss (P&L) impacts for the company. As the opposite applies here, companies who have a global pension de-risking budget may often find that they get the biggest "bang for their buck" by starting with a pensioner settlement project in Germany.

As not all pensions can be settled in this manner (only pensions with payment commencement before 2005 and "mini-pensions" may be paid out, and, for the pre-2005 benefits, the cash-out option has to be agreed between the company and the retiree), carrying out a pensioner settlement project will never result in all pension liabilities being settled. As a result, if a company is interested in fully removing the pension liabilities from its balance sheet, such a settlement project is often used as the first step in the de-risking journey, with alternative approaches (e.g., transfer of liabilities to an insurance company) being used in respect of the liabilities that cannot be cashed out.

UNITED KINGDOM

The budget announcement in 2014 was considered by many to have heralded in the greatest change in U.K. pensions in the last 50 years. One of the more dramatic changes made is that all employees with benefits under a DC plan must be given the option to receive their entire benefit entitlement as a lump sum. This change in legislation also impacts companies and employees with DB pension entitlements, as employees can be given the option of converting their DB benefits into a "DC pot," which could then be fully cashed out at retirement.

The press and travel industry responded immediately, with full-page advertising in major newspapers, encouraging new pensioners to "cash out their pensions and enjoy the vacation of a lifetime." While pensioners blowing their retirement savings on a cruise or some other exotic vacation might have broader long-term negative socioeconomic implications for the United Kingdom, at least from a company perspective there is a positive side to the story: Benefits that are cashed out will no longer need to be shown in the company's balance sheet, and, consequently, any financial risks inherent in the benefit schemes will be removed as well.

Assuming an employer would like to encourage employees to cash out their pension entitlements, this can be done by providing so-called "enhanced transfer values" or ETVs. In this case, the actuarial present value of the future pension entitlements is increased (enhanced) by a certain factor to "sweeten the pot" and encour-

CONTINUED ON PAGE 14

age beneficiaries to allow themselves to be cashed out.

Another interesting approach seen in the United Kingdom is the so-called "pension increase exchange." Pensions in the United Kingdom generally receive inflation adjustments after retirement; under a pension increase exchange exercise, pensioners receive an immediate increase to their monthly pensions, on the condition that they agree to waive all future pension adjustments. These activities can be structured in such a way that the expected costs to the company are somewhat reduced, but more importantly, a pension increase exchange exercise will serve to de-risk the pension obligations by removing the sensitivity of liabilities to future inflation levels.

There are also various options to settle pension liabilities with an insurance company. Obligations can either be transferred to an insurance company ("buy-out"), or the pension fund can purchase insurance and hold it as an asset ("buy-in").

CANADA

The pension environment in Canada is complicated, due in part to the way that pensions are regulated: Although Canada has by far the smallest population of any of the G7 countries, it is also the only country in the group that regulates pension plans on a provincial level. Thus while Germany, the United States, the United Kingdom and Japan all essentially have one set of national pension laws, Canada has 11 different sets of pension laws, one for each of the 10 provinces plus an 11th set of rules for companies and industries that fall under federal supervision. Whether, for instance, the people living in the province of Saskatchewan really have such radically different pension needs versus those of the people of Manitoba, thus justifying a completely different set of pension rules, is perhaps a valid point of discussion. In any case, the law is how it is, which makes pension provision in Canada complicated.

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The terms under which a pension plan can be terminated or "wound up," with liabilities transferred to an insurance company, will depend on the jurisdiction (province) of the participating members, which can make this process complex. However, the market for pension risk transfer to insurance companies in Canada is well-developed, and we have recently seen the first case where a longevity risk transfer vehicle was implemented.

CONCLUSIONS

In a world where pensions for new hires are predominantly provided with DC plans, DB plans have moved in many cases from being a strategic HR management tool to being a source of volatile historic liabilities and costs that need to be managed downward. While the approaches for dealing with these liabilities broadly consist of risk transfer, settlement or funding, the precise options available will vary by country depending on the local pension framework and legal requirements. Any company with material global pension liabilities would be well-advised to monitor these closely, in order to be able to take advantage of opportunities to de-risk, and to ensure that a global pension de-risking budget is allocated to the activities that are expected to yield the best returns for the group. ■

Norman Dreger, FSA, FCA, FCIA, is a partner at Mercer and the leader of Mercer's International Consulting Group in Central Europe (Austria, Germany and Switzerland). He is a member of the Mercer's Swiss and German Management Teams and the EMEA International Consulting Group Leadership Team. Dreger can be reached at *norman.dreger@mercer.com.*

Society of Actuaries Signs Memorandum of Understanding with China Association of Actuaries

On June 13, the Society of Actuaries (SOA) signed a memorandum of understanding (MOU) with the China Association of Actuaries (CAA). The agreement is an example of the SOA's continued efforts to foster and support the global actuarial community.

"Through this agreement with the CAA, we will identify and pursue collaborative efforts in advancing the actuarial profession," said SOA President Errol Cramer, FSA, MAAA. "We are happy to strengthen the communications and overall relationship between our two organizations."

As part of the agreement, the SOA will continue to explore opportunities to work together, such as on research and actuarial training in China, building upon existing collaborative efforts. SOA and CAA representatives will meet regularly to communicate with each other regarding major events and activities concerning the global profession. CAA President Dr. Chen Dongsheng led the CAA delegation at the agreement signing. Representatives from the CAA were in the United States to meet with the SOA and others. As part of this visit, Chen gave a presentation to the SOA's Board of Directors on the CAA and the development of the actuarial profession in China.

In addition to attending the SOA Board of Directors meeting and signing the MOU, the CAA representatives toured the SOA headquarters in Schaumburg, Illinois, meeting with key staff.

Cramer said, "Throughout the year I have spoken with SOA members and candidates around the world on the challenges and the need for being globally connected. This agreement with the CAA will deepen our understanding of how the SOA can best serve the growing need for actuaries in China while continuing to grow the relationship we currently enjoy with our colleagues at the CAA."

On June 12, the CAA representatives also attended the ERM Symposium in Washington, D.C. Chen gave a keynote speech on the insurance market in China. CAA representatives also presented at a concurrent session on the new solvency regulation in China, C-ROSS (China Risk Oriented Solvency System).

"We appreciate the opportunity to hear CAA's perspective on risk management first-hand as part of the global discussion," said Cramer. "We welcome the opportunity to strengthen the bridges between our actuarial communities."

Jed Isaman, FCAS, MAAA, 2015 ERM Symposium chair, commented, "We are proud and excited to have the CAA attending the ERM Symposium, sharing their insights on risk and regulatory matters from China. We recognize that risk is global in nature and believe that their perspective is important."

The ERM Symposium is presented by the Casualty Actuarial Society (CAS), the Canadian Institute of Actuaries, the Professional Risk Managers' International Association (PRMIA) and the SOA. This event brings together actuaries, academics and other risk management professionals from North America to discuss enterprise risk management (ERM) best practices, trends and challenges. For more information about the event visit *www.ERMsymposium.org*.

CAA, SOA and CAS members attend ERM Symposium in Washington, D.C.

ST. JOHN'S, NEWFOUNDLAND, CANADA
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Call for Papers and Presentations

'Our complex and inter-linked world"

Please do join your Actuarial and Legal colleagues at this international meeting in St. John's, Newfoundland and present a paper or give a presentation.

We will be most interested to receive your proposal for a paper or a presentation on topical, technical or professional issues that we, as actuaries and lawyers, are facing in our increasingly complex and inter-linked world. We will particularly welcome joint papers from actuaries and lawyers and from syndicates of actuaries or lawyers from around the world.

Whilst we are open to receiving papers on any subject, we will above all look forward to receiving papers around the theme for this colloquium of "Our complex and inter-linked world". We have listed below some ideas to encourage you to submit a proposal.

International Association of Consulting Actuaries - IACA

- Setting the scope and the effective management of cross-discipline projects
- Measuring and managing risk
- The complexities of advising global companies

International Actuarial Association Health Section - IAAHS

- Trends and Opportunities of Healthcare and digital Innovations across the Globe
- Issues in Healthcare such as Smart Analytics, Big Data, Genomics, Telemedicine and other Disease Management intervention
- Managing costs, solvency and financial soundness of public and private healthcare systems

Pension, Benefits and Social Security Section - PBSS

- Designing default funds for defined contribution plans
- The latest trends in de-accumulation strategies
- Managing state pension provision with an aging population

International Pension & Employee Benefits Lawyers Association - IPEBLA

- Considerations in changing pension and benefit commitments
- Changes in the landscape of pension plan design
- Pension de-risking developments and strategies
- Hot pension litigation trends around the globe

General Professional and Ethical Topics

- Conflicts of Interest
- Whistleblowing
- Cyber security

Best Paper and Best Presentation Awards

Each IAA section may award a prize for the best paper or presentation.

Please visit St. John's Colloquium website for more details

actuaries.org/stjohns2016

IPEBLA International Pension & Employee Benefits Lawyers Association

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SOCIETY OF ACTUARIES

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Learn more at ***www.soa.org/ReadyToGoKit.***
Contact Sherri Blyth at ***sblyth@soa.org*** with questions.

Ambassador Program and Social Activities in Japan

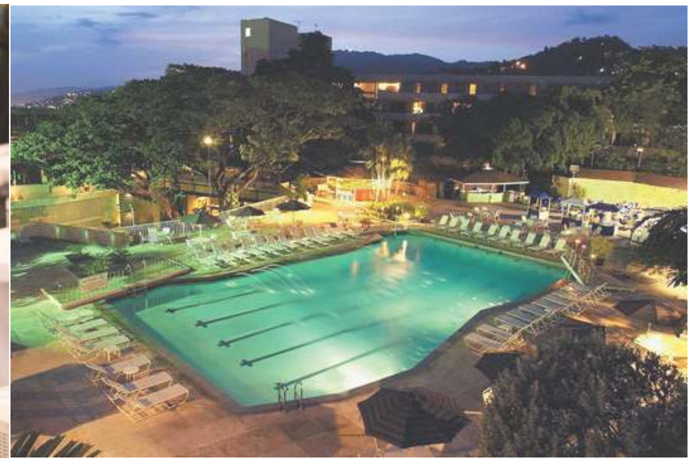
By Eduard Nunes

As has been the case for the last few years, Society of Actuaries (SOA) members in Japan recently gathered again for an informal networking event. This time, we tried a more upscale venue in Tokyo Midtown where we sipped champagne on a cool summer day. The turnout was fantastic and second only to the very first meeting I hosted a couple of years ago. We celebrated the new ASAs, CERAs and FSAs, and also welcomed newcomers to Japan. There was an astoundingly diverse mix of participants representing more than 15 different countries! If that wasn't exciting enough, the event was held just before the quarterfinals of the Women's World Cup and attendees were cheering for seven of the eight remaining teams—Australia, Canada, China, England, France, Japan and the United States. Eventually, our host Japan lost to the Americans in the "3 match" finals, but at the event, we were graced by a future member of Nadeshiko Japan who promised to be there in the next 20 years! Overall, the event was another great success and I would like to thank the coordinators at the various companies who support the process. Finally, I would also like to encourage actuaries living in Japan or visiting on business to come to future networking events. Cheers! ■


Eduard Nunes, FSA, CFA, FCIA, MAAA, is chief pricing actuary, Japan Branch, at RGA Reinsurance Company. He can be reached at *enunes@rgare.com*.

Caribbean Actuarial Association 25th Annual Conference

December 2-4, 2015
Hilton Trinidad & Conference Centre
Port of Spain, Trinidad & Tobago

The CAA's annual conference is the main event on the region's actuarial calendar and it brings together leading professionals in the financial services industry.

We are planning a special program to mark our 25th annual conference. The program will feature leading regional and international specialists in the fields of pensions, life insurance, investment and property and casualty insurance.

The Society of Actuaries' Associateship Professionalism Course will be held in conjunction with the conference.

The newly renovated Hilton Trinidad is set amid lush tropical foliage where the hills meet the Gulf of Paria and is only 45 minutes from Piarco International Airport.

Trinidad and Tobago is an environmental treasure with botanical gardens, bird sanctuaries the hemisphere's oldest protected rainforest and the La Brea Pitch Lake. You can also visit the twin island republic's sister island Tobago which has some of the best beaches in the Caribbean.

We look forward to welcoming you to Trinidad and Tobago, our Island Paradise.

Details will be available soon on our website at www.caa.com.bb.

CARIBBEAN ACTUARIAL ASSOCIATION

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