

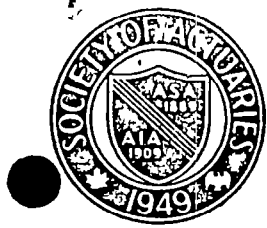


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INDEX-LINKED SECURITIES IN THE U.K.

by Alistair Neill, F.F.A., F.I.A.

In the U.K., as elsewhere, the merits of index-linked securities have been widely discussed. Debate was given impetus early this year by the "Inquiry into the Value of Pensions" set up by Prime Minister Margaret Thatcher to consider the value of the differences in inflation protection of private pensions and job security, comparing those for civil servants with others. This committee, composed of three businessmen, one academic, and one actuary (R. E. Macdonald, F.F.A.) reported in February 1981.

In one matter the report was short—it said that nobody previously had managed to assess the relative value of job security, and neither could they. The press had been speculating that the committee had been appointed to recommend that index-linking of civil service pensions be abandoned; but it endorsed the idea and urged that private pensions try to do the same. It suggested that one means might be for the Government to issue index-linked bonds.

To general astonishment the Government promptly announced that it would issue an index-linked Treasury security repayable in 1996, for the sole benefit of pension funds and insurance companies with pension contracts. It would pay 2% interest, with both principal and interest indexed to movements in the Retail Price Index (our equivalent of the U.S.A.'s CPI). The issue was made by tender, i.e., the whole stock was to be allotted at the highest price at which all the amount offered (£ 1 billion) could be sold to authorized purchasers. It is traded on the London Stock Exchange just like any other security.

(Continued on page 8)

ANNUAL MEETING WILL HAVE NEW SESSION FORMATS

by Robert D. Shapiro
Chairman, Program Committee

Gone are the time-honored Concurrent Sessions and Discussion Forums. After reflecting on evaluation form comments and other evidence, the Program Committee will unveil at Atlanta two brand-new formats:

Panel Discussions (PD's)
and
Open Forums (OF's)

For a *Panel Discussion*, the moderator will assemble experts to present the current state and outlook for the program subject. This format is used when information previously available to the audience has been limited. Time will be provided of course for questions and comments from the floor.

In an *Open Forum*, on the other hand, the moderator's aim, after an explanatory preamble, will be to excite give-and-take exchanges among panelists and the audience. This arrangement is expected to fit topics that lend themselves to broad interplay and a variety of opinion.

The familiar *General Sessions* and *Workshops* will continue unchanged. And evaluation forms will again be furnished and their completion urged. At Montreal a year ago, more than 1,500 of these were turned in. The Program Committee has quickly come to rely heavily on this source of ideas and will welcome suggestions for improving the evaluation procedure still further.

Also, the emphasis in the moderator's role is being changed. The moderator will concentrate on staging a smooth, effective session and do less personal contributing to the topic's subject matter. □

CANADA'S NATIONAL PENSION CONFERENCE

by J. Bruce MacDonald

Ed. Note: This is the first of two articles on this important meeting. As a workshop leader thereof, the author was in a preferred position as an observer.

My overall impression of the National Pension Conference was highly positive. The federal government had stated that its course of action on pensions wouldn't be decided till after it had assessed what it heard there. Nothing I heard led me to doubt its sincerity,

The mix of delegates—about 25% each from government, from employer groups, from labour and from special interest groups — was itself cause for confidence. Speakers generally stated their positions with reason and moderation; delegates listened courteously to opposing views. Even if it achieved no more than getting groups out from their largely self-constructed ghettos, the Conference must be counted a success.

The federal government gives pensions a priority exceeded perhaps only by energy and Canada's Constitution. The Prime Minister and the Ministers of Finance and of National Health and Welfare all were present. Their speeches were moderate and realistic. There were three speeches by left-wingers, but the addresses of the federal cabinet ministers quieted fears that the government might be committed to massive enlargement of the Canada Pension Plan (CPP). An excellent speech was given by Claude Castonguay who was architect of the Quebec Pension Plan and Quebec Medicare.

(Continued on page 8)

Index-Linked Securities

(Continued from page 1)

The Issuing And Subsequent Price

Opinions on the price at which tenders should be made varied widely. Stockbrokers suggested prices at about 110, 115, 120, or even higher. Some of our large actuarial firms argued that the 2% yield was too low and that tenders should be at less than par, even down to 80. Also debated was whether the security should be compared with normal Government fixed-interest securities or whether it was more akin to a common stock investment; and whether the need really was for a security indexed to earnings rather than prices.

As it turned out, the issue was sold at exactly 100. It remained there for a while, but following further weakness of interest rates it tended downwards. Its high was 100¾ and its low 96¼ until it suddenly fell to 92¼ when the second security described below was issued.

In July the Government issued a second security, similar to the first with the same 2% interest, but maturing in rather than 15 years. This was to be issued on the same basis as before but the prices tendered were clearly much lower and the striking price was 86, to yield almost 3%. Not all that stock was allotted; it was, however, sold by the Government at a slightly higher price on the first day of dealing.

The Government finds the low servicing cost of these securities in their early years attractive. But their valuation is causing much interest and disagreement among the experts.

Ed. Note: We welcome this from our newsletter's new Edinburgh Correspondent. □

Canada's Pension Conference

(Continued from page 1)

General Impressions

Few speakers maintained that a citizen has any obligation to take care of his own old age. The view that the state and employers between them should provide an adequate pension prevails.

The case against expanding the Canada Pension Plan was not voiced strong-

ly. If the CPP continues to be funded pay-as-you-go, the ultimate cost may be unacceptable, while if it's funded on conventional actuarial lines, the enormous pool of capital under government control raises frightening questions.

Employers—who will have to pay for pension plan improvements—were under-represented and curiously silent. And young people—who must ultimately pay the bill—weren't represented at all. Youth's attitude about the contribution level that CPP might require early in the next century would be interesting and perhaps salutary.

The faith of so many, especially labour, in government is, in the light of the government's track record in labour relations, perplexing. Surely labour would, as in Eastern Europe, oppose government control of trade unions; yet its leaders seem blithely willing to give complete control of the public pension system to governments not yet elected.

Too many delegates displayed no more than rudimentary knowledge of pensions. Apparently the federal government is shocked at this naivete; a well-financed educational programme on pensions is in the offing.

Ed. Note: The next article will report on coverage, women and pensions, portability, vesting and locking-in, and protection against inflation. □

DIRECTOR OF RESEARCH

James L. Cowen A.S.A. 1959, has been appointed the Society's first Director of Research. Jim is widely known as a former Chairman of the U.S. Railroad Retirement Board. □

Review Seminars For Parts 1, 2, & 4

Review Seminars for the above Fall 1981 exams will be held on Thursdays—to—Saturdays in October, co-sponsored by CAMAR (Casualty Actuaries of Mid-Atlantic Region) and Temple University. Starting dates: for Part 1, Oct. 15; Part 2, Oct. 22; Part 4, Oct. 1. For particulars and fees, ask Dr. Murray Silver, A.S.A., (215) 787-8153.

MORTALITY ANALYSIS SEMINARS

by Philip F. Finnegan

Actuaries in selection of risks are familiar with the 1976 reference volume, *MEDICAL RISKS: PATTERNS OF MORTALITY AND SURVIVAL* — a monumental undertaking, co-sponsored by the Society and the Association of Life Insurance Medical Directors of America (ALIMDA). It brought together in standard abstract format mortality and morbidity statistics gleaned from more than 2,000 articles in medical and actuarial literature. Its editors were Louis Levinson, F.S.A. and Richard B. Singer, M.D.

Dr. Singer, now retired and a consultant to ALIMDA's Mortality and Morbidity Committee, is actively producing fresh mortality abstracts and has been conducting, under ALIMDA's sponsorship, a series of seminars on Mortality Methodology and Analysis. These seminars undertake to teach participants how to evaluate statistics portraying death and survival rates.

Although designed primarily for medical directors, these seminars are of value also to actuaries. An actuary will find the theoretical concepts elementary but yet will benefit from reviewing basic principles and having a refresher in translating data into the standard format employed.

The seminar is a mix of lecture period and small group workshops. At the workshop each participant presents work he or she has done in advance on furnished material.

Dr. Singer has conducted 8 day-and-a-half seminars in different cities, attended by 68 ALIMDA members, 8 actuaries, and assorted underwriters and research people. Registration fee is \$100.

The next two seminars are scheduled for Boston, October 22-23, 1981, and New York City, November 9-10, 1982. For particulars and registration forms, see your own Medical Department. Announcements are in ALIMDA's *Journal of Insurance Medicine*. □