



SOCIETY OF ACTUARIES

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# International Section News

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# U.K. Government Actuary Speaks on Pensions in China

by Paul Chow

**O**n February 20, 2004, the Pacific Rim Actuaries' Club of Toronto hosted a unique event where actuaries from three continents celebrated the Chinese New Year. Chris Daykin, the U.K. Government actuary, came to Canada to speak about developments in social security and private pensions in China.



What does the U.K. government actuary have to do with pensions in China? Chris Daykin is a very prominent actuary in England and very well-known internationally. He is a former president of the Institute of Actuaries and played a major role in the development of the joint examinations of the Institute of Actuaries and the Faculty of Actuaries. To promote actuarial education, Chris has travelled extensively all over Europe and internationally, including China. Chris has been closely involved with the development of the actuarial profession in China since 1992 and visits China regularly to support university actuarial programs that focus on the Institute of Actuaries' examinations. In 1998, Chris was named an honorary visiting professor at the Shanghai University of Finance and Economics.

The Pacific Rim Actuaries' Club of Toronto is one of two actuarial clubs in Toronto. It provides a forum for actuaries to discuss international issues mainly connected with the Asia Pacific region. Catherine Lyn, the president of the club, worked at Watson Wyatt in England a number of years ago and knew Chris Daykin.

Catherine invited Chris to speak to the club about China. Coincidentally, Chris had planned to visit Mexico and New York shortly after the Chinese New Year. He included Toronto on his itinerary and gave a very informative and interesting presentation on pensions in China.

Chris' presentation started with a demographic profile of the Chinese population. Currently, only 10 percent of the population is over 60. By 2050, that group is projected to increase to 26 percent, due partly to the "one-child" policy and to substantial improvement in life expectancy. Currently, there are nine working-age persons (aged 15 to 64) for every one retirement-age person (aged 65 or older). By 2050, that ratio is projected to decrease to 2:5. The average age in China is currently 31. By 2050, the average age is projected to increase to 40. China is growing old before it can get rich.

We heard that in the early stages of pension development, pension coverage in China was restricted mainly to civil servants and workers in state-owned enterprises (SOEs). Problems arose because many SOEs were financially weak, contribution compliance was poor, the schemes were run on a pay-as-you-go basis (which began to collapse as the number of retirees increased) and there was very limited portability.

In the 1990s, the World Bank did some studies and concluded that with the rapidly aging population in China, pension plans could no longer rely on the next generation of workers to support the current pensioners. Therefore, current employers and employees must pay in advance toward the cost of their pensions.

More recently, China's Ministry of Labor and Social Security (MOLSS) introduced a two-part basic pension plan consisting of a flat pension (20 percent of wages) plus a notional defined-contribution plan. Due to a lack of fully qualified actuaries, this scheme is also running into funding problems, as no proper actuarial evaluations of future costs have been made.

With the aging of China's population, occupational pension plans must now be developed under the new MOLSS regulations, which require funding. MOLSS has recommended that pension funds be allowed to invest in stocks to provide for higher long-term rates of return. Accordingly, the challenges are to



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continued on page 21

# What's New in the SOA's International Arena?

by Martha Sikaras

## International Strategy

The Board Level Advisory Group on International Issues, chaired by Stuart Wason, continues work on formalizing international strategy that would support a variety of initiatives. At the January 2004 Board of Governors meeting, a set of guiding principles was approved. These international strategy guiding principles are:

1. The SOA seeks to provide altruistic support to the global profession and its constituents by working with and through the International Actuarial Association (IAA) from both a financial and volunteer perspective.
2. In its international activities, the SOA will adhere to its basic purposes, among them the continued evolution of actuarial education and research.
3. The SOA will focus efforts on programs within specific regions. Individual efforts will be considered within the scope of the SOA strategy for that region and in concert with the efforts of the IAA.
4. International requests requiring financial, staff and/or volunteer resources beyond what the SOA is currently able to commit will be referred to the IAA or perhaps for collaboration with other individual actuarial associations.
5. The SOA should respect the role of applicable national standards setting organizations (e.g., AAA in the U.S., CIA in Canada etc.).

These principles will be translated into a series of concrete tactics across five primary areas:

- Education and examination
- Continuing professional development
- Membership services
- Research
- Professionalism

Over the coming weeks, the international strategy design team will be consulting with a variety of SOA constituent groups including our local regionally focused committees, the International Section, board members and others. Comments and questions are always welcome. Please contact Martha Sikaras at [msikaras@soa.org](mailto:msikaras@soa.org).

## IAA and other Event News

The IAA's Working Party on Insurer Solvency has issued its draft report, "A Global Framework for Insurer Solvency." Individuals with IAA member IDs and passwords may access the report via the IAA Web site, [www.actuaries.org](http://www.actuaries.org). Alternatively, you may order a copy using the form available at [http://www.actuaries.org/public/en/order\\_form.cfm](http://www.actuaries.org/public/en/order_form.cfm).

The second International Health Colloquium was held on April 27-29, 2004 in Dresden, Germany. The colloquium covered topics for health actuaries as well as other scientists and practitioners with interest in health insurance and health issues. Sessions covered both health policy and practical health insurance product issues. Details can be found at the colloquium Web site at <http://www.iaahs2004.de/>. Actuaries with interest in health issues are strongly encouraged to join the new IAA Health Section. Information on joining is available at <http://www.actuaries.org/public/en/IAAHS/index.cfm>

The IAA recently released a newsletter with a focus on the development of potential IAA Standards for Application with standards promulgated by the International Accounting Standards Board (IASB). The development of actuarial standards is a new process for the IAA. An increasing number of actuaries have been active in developing guidance for those actuaries who will be performing the actuarial work necessary to implement the new IASB standards. It is expected that the IAA Council will act conservatively in order to obtain the maximum consensus as it embarks on this new initiative of international actuarial standard setting. SOA members involved in the process will be called upon to provide regular updates to the board of governors and members. Be sure to watch for more developments in the near future.

The Swiss Actuarial Association is sponsoring the 17th International Summer School 2004 on Equity and Interest Rate Models: Theory and Applications, which will be held Monday, August 2 through Friday, August 6, 2004. More information can be obtained by contacting François Dufresne at [Francois.Dufresne@hec.unil.ch](mailto:Francois.Dufresne@hec.unil.ch). □



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# Meeting Minutes of the International Section Council

## Conference Call

### January 20, 2004 – 8 A.M. EST

#### 1. Roll Call

Rejean Besner, Michael Enright, Bill Horbatt, Tom Leonard, Marc Slutzky, Yiji Starr, Ronald Poon-Affat, Carl Khor, Randy Makin and Shyamalkumer Nariankadu attended all or part of the meeting by teleconference. From the SOA, Lois Chinnock, Martha Sikaras and Emily Kessler attended all or part of the meeting by teleconference as well. Paul Sauv , Anna Louie and August Chow did not participate.

#### 2. Approval of Minutes

The minutes for the meeting of December 9, 2003 were approved as amended.

#### 3. Treasury Update

- Lois is working with Pat Kum to effect the payment of U.S. \$2000 to the Society of Actuaries of China.
- Approved sponsorship at the silver level (CAN \$250) for the Pacific Rim Actuaries' Club of Toronto. Lois will coordinate payment.

#### 4. 2004 SOA Meeting Sessions

- Spring session topics are closed. We are still looking for speakers for the international sessions. Descriptions are listed below:
  - Session IN01 (Actuarial Employment) – both meetings
  - Session IN02 (International Benchmarking) – San Antonio only
- Annual meeting planning for New York (Fall 2005) begins soon with sessions determined in January and February of 2004. Ideas for annual meeting sessions are welcome.
- Annual meeting reception ideas were also discussed. Possible ideas were a visit to the United Nations and a boat tour.

#### 5. Webcasts

- The Financial Reporting Section has expressed interest in co-sponsoring a webcast.

- One possible topic that was discussed is International Accounting Standards, which is of interest to both the International and Financial Reporting Sections.
- Carl will discuss and coordinate with Mark Freedman, Chairperson of the Financial Reporting Section.
- Bill has volunteered to help recruit a potential European representative for the debate.

#### 6. Website Liaison

- Shyamalkumer is awaiting the SOA Web site redesign.
- Lois reported that this should happen in 1st quarter 2004.

#### 7. Seminar

- Three potential topics were discussed:
  - Risk Management (disadvantage: SOA meeting likely to have significant sessions on topic)
  - Experience Studies (advantage: dovetails nicely with ISC experience study push)
  - M&A/Due Diligence Seminar (advantage: big interest in recent China Life IPO)
- Suggested timing was either before or after the SOA meeting to take advantage of the large number of actuaries expected at the meeting.
- It was expressed that speakers are the key to a good seminar. Also good to include are multiple countries with potential to be interactive and competitive (i.e. split into teams).
- Given that the SOA Annual Meeting planning and recruiting is being done in March and April, the following timeline was suggested for the seminar:
  - March ISC conference call—Follow-up discussions on ideas/topics
  - April ISC conference call—Final definition as to the seminar topics/times/etc.

- Sandy Neukirchen of the SOA should be contacted for support.

## 8. Newsletter

- The February newsletter will have the Country Feature contest.
- The June newsletter must have all stories in by April 4th.
- We discussed creating regular columns that could appear with every issue such as monthly country updates (currently done by other actuarial organizations around the world), ambassador annual reports and country features.
- The October newsletter must have all stories in by August 6, 2004.
- Randy Makin confirmed that he would be retiring after the fall newsletter. We are looking for a new editor and should include this in the next newsletter.

## 9. Ambassador Program

- Anna reported that Thomas Lee has volunteered to be the new Hong Kong ambassador.
- Martha has responsibility for the approval process. Mr. Lee will basically need to apply and then be formally approved.

- The need to send out a general reminder of the obligations and roles of the ambassador was discussed along with the idea of term limits for the ambassadors. This will be discussed with the ambassador coordinator and reported back to the ISC on the next conference call.

## 10. Governance Issues

- Yiji reported back on the potential effect on the sections of the recent SOA moves. In general, the sections may be asked to take on larger roles, but additional responsibilities would not be required. Likely to affect Life and Health Sections more so than others.

## 11. Other

- The University Reference Program was discussed as a resource for actuarial study material for the SOA exams.

Meeting adjourned at 10 a.m. □

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U.K. Government Actuary Speaks ... | from page 18

develop plans that are properly funded, sort out annuitization issues and begin proper management of investments. There is currently an urgent need in China for experts in pensions to work and train locally.

Today, almost all actuaries in China work in insurance. With the growth of pension plans, that will likely change as the need for pension actuaries will increase quickly. There is also a growing demand for actuaries in property and casualty insurance. The Institute of Actuaries and the Society of Actuaries both organize actuarial examinations in China. Several universities in China now offer actuarial courses. With the number of actuaries growing in China, the Society of Actuaries of China was founded in July 2001.

For this event, the Pacific Rim Actuaries' Club of Toronto received tremendous support from the actuarial community with 24 corpo-

rate sponsors (including the Society of Actuaries International Section) who donated cash and door prizes. There was a record crowd of 145 members in attendance due partly to the importance of this growing area of actuarial expertise and knowledge required in China.

The club holds three regular events each year, two of which are dinner meetings featuring an international topic connected with the Asia Pacific region, the other is a summer barbecue. Harry Panjer, a prominent Canadian actuary who is very well known internationally, will be the speaker for the club's next meeting in September 2004. More information about the club and future events can be obtained from their Web site at [www.pacificrimactuaries.com](http://www.pacificrimactuaries.com). □