SOCIETY OF ACTUARIES International Section

International News

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Editor's Note

By Carl Hansen

I hope that readers in the Northern Hemisphere are enjoying what is left of summer. As I write this, we are still waiting for summer here in the Channel Islands. Fortunately, we are not as badly off (yet) as some parts of the United Kingdom. Slight variations of the phrase "…a month's worth of rain in a day/few hours…" seem to make a daily appearance on the news reports from various parts of the United Kingdom. Just a few months ago, reports from many of these same regions talked about droughts and watering restrictions for the summer. This must be causing all sorts of problems for those among us working in casualty/non-life insurance.

Regardless of the current weather wherever you are reading this, we hope that this issue of *International News* will bring some sunshine to your day as your mind wanders off to faraway destinations while reading our collection of articles and reports. In addition to reports from international meetings in Hong Kong and Los Angeles, this issue features the first of our 2012 Country Feature Article competition entries. From this year's outstanding articles, the International Section Council[1] has chosen "The Euro Crisis & Political Risks Affecting Retirement Income Programs" by Norman Dreger (see page 5) as the winner of the competition. In addition, "How the Politicians Saved One Country's Social Security Pension System" by Alan Cooke (see page 10) was awarded second place. Congratulations to both authors! If you are in need of some real sunshine and beautiful weather after reading this issue, I recommend making your plans for the Caribbean Actuarial Association's conference in the Bahamas in November (see page 4 for more details). I can't think of a better way to meet your CPD requirements.

Other than the weather, there seem to be a large number of challenges currently facing actuaries around the world: the implementation of Solvency II and other local insurance solvency regimes, longevity and its impact on the various actuarial disciplines, managing risk in businesses and in financial programs, the wide-ranging impact of current economic issues, etc. We are always happy to have good articles on topics like these, or just general articles on the latest developments in benefits, insurance, or the actuarial profession in your country. □

END NOTES

1 *Note: The International News editorial board does not participate in voting for Country Feature Article Competition winners.*

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Chairperson's Corner

By Genghui Wu

Dear International Section Members,
My term as chair of the International Section Council ends at the 2012 SOA annual meeting. Time has certainly passed quickly and I believe that we have accomplished much during my three years on the International Section Council.

I am pleased to report on a year of strong teamwork and good progress in serving section members in several areas, consistent with the plans the council laid out at the start of the year. The following are a few highlights of this year's council activities:

- We have sponsored sessions and arranged speakers for the SOA Annual Meeting, Valuation Actuary Symposium, and Life and Annuity Symposium.

- We have agreed to provide financial support to the Pacific Rim Actuarial Club, country ambassador events in Indonesia, Thailand, and the United Kingdom, sending representatives to the IAA colloquium, SOA annual meeting section breakfast and reception, and other SOA research efforts.

- In collaboration with the Investment Section and the China Regional Committee, we sponsored a SOA ALM Investment Seminar in both Shanghai and Taipei.

- *International News* continues to contain many impressive articles from around the world. I think that it is consistently one of the best of the section newsletters and this is in no small part due to the efforts of the editorial team.

- I am pleased to advise that we have recently completed an updated survey of membership around the world with an excellent response. The responses gathered are being analyzed and will provide a wealth of valuable information to ensure future council priorities are aligned with the input of section membership.

- The International Section Council ran another Country Feature Article Competition this year. We are pleased to see eight great submissions entered into the competition. The winning article appears in this issue.

- We have organized a new volunteer group this year to take the lead in section member communication and related international initiatives. This group will work with the council and SOA staff to enhance the section communication tools with our members and be involved in other SOA activities sponsored by the International Section. With their tremendous effort, we recently formed a section professional group on LinkedIn (over 300 members have registered so far), which aims to provide more effective and advanced ways of communication to our members.

- The International Section continues to be an ongoing supporter of the international experience study work.

The International Section Council has been working aggressively to support the forward-looking initiatives of our profession. We have learned a lot both from comments we have received from our membership as well as our general experiences in the marketplace. But, much more remains to be done. Our ultimate success will depend upon the extent to which we, the section council, are serving your needs as members of this section.

As I look back on my tenure on the International Section Council, I have been lucky to be involved with a group that has displayed such good effort and ability across the board. I would like to thank the other International Section Council members and the many other volunteers who make the section activities a reality. By the time this edition of *International News* is published, section council elections will have concluded and the new council will soon begin its work. I want to take this opportunity to welcome new council members, knowing they will bring a fresh vision to our section as we move ahead on the initiatives identified. I would also like to thank the outgoing council members who have worked long and hard over their terms to advance our collective goals. These individuals have devoted their time and energy to our organization and, I believe, we are well-positioned for the future as a section and as a profession as a result of their efforts.

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Volunteers are the fuel that powers the International Section machinery. I would remind everyone reading this that there are many ways to join the party—from something as simple as writing an article or posting on our LinkedIn group[1], to helping to plan a meeting or webinar—every bit counts.

Finally, I hope that many of you will be able to attend the International Section reception at the annual meeting. It is a highlight of the year and will give you a chance to meet many of the council members in person. And, hopefully, you will be encouraged to run for council yourselves one day.

[1]To join the LinkedIn group visit *http://linkd.in/Oq3E18*

2012 CARIBBEAN ACTUARIAL CONFERENCE IN THE BAHAMAS

Attend the CAA 2012 conference in Nassau, Bahamas and be a part of the dialogue on actuarial issues facing the Caribbean region and the world!

The 22nd annual Caribbean Actuarial Association conference will be held at the Sheraton Nassau Beach Resort in The Bahamas from November 15 to 16, 2012. It will be held in conjunction with the IAA's Fall Meetings.

On November 14 the Institute & Faculty of Actuaries will conduct a **Professionals Skills Course**. This seminar will provide up to 6½ hours professionalism CPD credits for qualified actuaries and students and offers a highly recommended update on professionalism issues.

Conference and course details will be available soon at www.caa.com.bb.

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The Euro Crisis and Political Risks Affecting Retirement Income Programs

By Norman Dreger

Editor's Note: This article won the first place prize in the International Section Country Feature Article Competition.

INTRODUCTION

Many of us have watched the developing euro crisis with trepidation. What started as a banking crisis has now turned into a government debt crisis, in particular on the European periphery.

One issue that has not been in the spotlight as much as one might expect, is the implications of the euro crisis on retirement income programs.

As countries suffer economically, so too will their social security programs. Such programs are typically provided on a pay-as-you-go basis, and many of these programs were subject to structural problems long before the European sovereign debt crisis came around. Possible negative implications are not restricted to government pension programs though. As company pension benefits are highly regulated, these benefits are also subject to political risks to a greater extent than many other employee benefits might be.

In the past, we have seen changes to regulations which have been perceived to negatively impact pensions. However, during the euro crisis, we have seen governments undertake austerity measures which dramatically reduce pension benefits in a way never seen before in Europe, at times even going as far as to confiscate pension assets in order to fill government coffers.

This article examines such developments in four European countries.

HUNGARY: CONFISCATION OF SECOND PILLAR PENSION ASSETS

After the transition to a market based economy, the pension system in Hungary consisted of three pillars:

- Pillar 1: A pay-as-you-go social security system
- Pillar 2: A funded system of mandatory individual accounts
- Pillar 3: Company pension benefits

At the end of 2010, the second pillar pension system had over 3m members and around 10 billion euro in assets.

Near the end of 2010, the Hungarian state was in dire need of capital. Desperate times call for desperate measures, and the government came up with the creative solution of asking people to "voluntarily" give up their second pillar savings in order to help the government deal with its short-term liquidity concerns.

You may wonder why anybody in their right mind would agree to "voluntarily" give up their hard earned pension savings. The answer is simple: The payment of the account balances to the government was made voluntary, however, anybody who was not willing to make such a "donation" would not receive any additional future benefits from the first pillar social security system, although they would be required to continue to contribute to the system in future. In what basically comes down to a form of blackmail, some 97 percent of members sacrificed their second pillar accounts, handing the government a one-off 10 billion euro windfall.

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The question some pundits are asking is whether the government will stop at the second pillar. Many doubt the government will. The third pillar currently has about 3 billion euro in assets. Will people be asked in future to "voluntarily" give up this money as well? Watch this space!

IRELAND: "TEMPORARY" TAX ON PENSION ASSETS

Ireland has traditionally been a relatively poor country. However, Ireland is also a country with a long tradition of funded corporate pension benefits and as a result, while the government coffers have often been quite empty, there has traditionally been (relatively speaking) a lot of money in Irish pension funds.

The economic situation in Ireland improved dramatically in the late 1990s. This trend continued through to 2007/2008, and the start of the global banking crisis. And then everything started to go really wrong, really fast.

In September 2008, the Irish government announced that the country had entered into a recession, the first state in the Eurozone to do so since the introduction of the euro.

Ireland received assistance from the EU and the IMF in 2010, and in return was required to meet very challenging deficit reduction targets. The government was on the lookout for creative solutions to try and solve what seemed to be an impossible problem.

In May 2011, the government dropped a bombshell announcement: A "temporary tax" on pension schemes and personal pension plans of 0.6 percent per year of the value of the pension assets would be levied. The levy is to last for four years, and is intended to raise about half a billion euro in each of these years.

Whether this will actually be a temporary measure remains to be seen. After all, income tax was also introduced as a temporary measure many years ago, and we still are living with it today. This move may also be the death of the Irish hosted pan-European pension plan. Can you imagine a company wanting to transfer all of its European assets to Ireland, only to have these taxed at a rate of 0.6 percent per year?

PORTUGAL: ASSUMPTION OF LONG-TERM PENSION LIABILITIES TO SATISFY SHORT-TERM BUDGET CONSOLIDATION TARGETS

Portugal is one of the countries suffering the most as a result of the Eurozone crisis. Similar to Ireland, Portugal received massive financial assistance from the EU and the IMF in 2010, and in turn committed itself to drastically reduce its budget deficit over a short period of time.

Presented with limited options, the Portuguese government also needed to seek creative solutions in order to meet its short-term budget consolidation targets.

Such a creative solution was found in 2010. It was agreed that the state would assume approximately 3 billion euro in pension assets and liabilities from Portugal Telecom. The three billion in assets would provide Portugal with desperately needed funds to help it deal with its short-term spending requirements, while reducing its budget deficit as required by the EU and the IMF. Unfortunately, by taking on the assets, the Portuguese government also took on the liabilities associated with the pension commitments. And while the assets which were assumed were used up almost immediately, the liabilities remain with the state on an unfunded basis. The Portuguese state will need to pay for these benefits through future increases in productivity, or through future increased savings.

Because the state is not required to prepare a balance sheet in the same manner as a publicly listed company, these liabilities will not

The euro crisis has resulted in negative implications for retirement income programs in a number of European countries.

be recorded or disclosed in a transparent way. However, this fact does not make the future obligations of the Portuguese government and the corresponding financial burden any less real. In fact, this lack of transparency might ultimately prove to be an additional burden, as obligations that are not accounted for properly are perhaps less in focus and thus more difficult to manage.

The transfer of assets and liabilities from Portugal Telecom was intended to be a one-time arrangement to help Portugal out of a difficult situation. However, just one year later, Portugal again found that it was struggling to meet its budget deficit reduction targets. In order to again meet these targets, another "pension solution" was found, this time with 18 Portuguese banks. It was agreed to transfer approximately six billion euro in assets and liabilities from the banks to the state. And again, while this gave the government badly needed access to funds; it also meant that the long-term liabilities were assumed by the state on an unfunded basis.

The Portuguese government will need to meet ambitious deficit reduction targets in 2013 and in future years. One has to wonder how long Portugal can strip pension plans of their assets and assume the pension obligations on an unfunded basis as a type of additional sovereign debt, before there are no pension plans left to raid and the country finds itself with its back against the wall.

U.K.: DECREASE IN TAX EFFECTIVE PENSIONS SAVINGS LIMIT

The United Kingdom has also suffered greatly as a result of the current crisis. The government has introduced a number of extreme austerity measures in the last several years to try and get the country back on track. Effective April 2011, there was a dramatic change in the amount of pension an individual can earn in a given year on a tax sheltered basis. This amount was reduced by over 80 percent from 255k GBP to 50k GBP per annum.

For the purposes of determining the value of pension benefits earned in a given year, different approaches are required for defined contribution and defined benefit pension plans. For a defined contribution plan, the value of the pension benefits earned in a given year is simply the total contribution made. For a defined benefit pension plan, the value is based on a formula, essentially the increase in pension entitlement over the year times a factor of 16.

While much smaller than before, 50k GBP may still seem like quite a large amount of tax sheltering for pension benefits. For instance, for a defined contribution pension plan paying a contribution of 10 percent of salary, only employees earning over 500k GBP would be affected by this change.

However, for defined benefit pension plans, especially plans which are based on final salary, the threshold is now low enough that people in middle management or other professionals could be affected.

Take for instance a typical middle management employee. Let's call her Elizabeth in honour of the 2012 diamond jubilee. Elizabeth earns 110k GBP a year, a decent salary all things considered, but no CEO-salary by any means. Elizabeth participates in a defined benefit pension plan which pays 2 percent of final pay per year of service, and has 25 years of credited service.

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Elizabeth had a very successful year in 2010. However, as her employer had a very challenging year in 2010, it was decided globally that there would be no salary adjustments at the start of 2011. Elizabeth was disappointed, but she was promised that the company would make it up to her in 2012.

Elizabeth's notional pension earnings in 2011 are:

110k GBP x 2 percent x (factor of 16) = approximately 35k GBP

Since this amount is less than the tax effective savings limit of 50k GBP, Elizabeth would pay no tax as a result of the pension entitlements she earned in 2011. After paying about 40k GBP in taxes on her regular salary, and 30k GBP in mortgage payments, this leaves Elizabeth with 40k GBP to spend.

Lets jump ahead now to 2012. This year Elizabeth received the salary increase she was waiting for, a 13.6 percent increase from 110k GBP to 125k GBP. She was delighted when she heard the news: however, her celebratory mood came to an abrupt end when she received her tax bill for 2012.

Here's why: Elizabeth's notional pension earnings are significantly higher than in the prior year, leading to additional tax payments. Her annual pension entitlement at the end of 2011 was:

25 years of service x 2 percent x 110k GBP = 55k GBP per year

At the end of 2012, her pension entitlement was:

26 years of service x 2 percent x 125k GBP = 65k GBP per year, an increase of 10k GBP.

This means that Elizabeth has notional pensions earnings in 2012 of

10k GBP x (factor of 16) = 160k GBP

which is significantly higher than the 50k GBP maximum tax effective amount. Even if Elizabeth can transfer 15k GBP of unused tax effective pensions savings from the prior three years (which is permitted under the new rules), this means that she will have to pay an additional tax on notional pension earnings of:

160k GBP – 50k GBP – 3x15k GBP = 65k GBP.

The additional "pensions tax bill" on this 65k GBP of notional earnings is expected to be around 30k GBP. Thus assuming she has 45k GBP of regular tax, an additional "pensions tax" of 30k GBP and 30k GBP of mortgage payments, this leaves Elizabeth with only 20k GBP to spend in 2012, half the amount she had in the prior year.

This admittedly overly simplified example (U.K. actuaries: please forgive me for cutting some corners here) demonstrates how even ordinary employees can be hugely impacted by this change in legislation. Companies that have open defined benefit pension plans in the United Kingdom will need to do some hard thinking about how they would like to address this problem.

CONCLUSIONS

The euro crisis has resulted in negative implications for retirement income programs in a number of European countries. Unless we experience a dramatic turn of events, this trend may be expected to continue, and even to spread to other countries. However, in spite of the risks, I believe corporate pensions will remain a key attraction and retention tool for employers; the risks associated with pensions can be managed, but it is important that companies say abreast of developments in order to minimise the impact of surprises, in particular in such volatile and uncertain times. □

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How the Politicians Saved One Country's Social Security Pension System

By Alan Cooke

Editor's Note: This article won the second place prize in the International Section Country Feature Article Competition.

This country's economic situation resembled the condition of any one of a number of countries after the 2008 financial crisis. Unemployment stood at more than 11 percent, the federal deficit was at record levels, government bonds had been downgraded by several rating agencies and there were rumours of impending bailouts from international institutions. In addition, the country's social security pension plan was viewed as being bankrupt as the fund supporting it was expected to be exhausted in about 20 years. No, this was not Greece or Ireland in 2012 but rather Canada in 1993. However, through the political courage of the country's federal Minister of Finance, not only did Canada's economy get put back on a solid footing over the next four years but its pay-as-you-go social security system was converted to a "steady state" financing system that stabilized its funding for the subsequent 75 years. We will start this unlikely political story with a little background on the Canadian social security system.

CANADIAN SOCIAL SECURITY SYSTEM

Canada has three sources of social security pensions:

1. the "GIS" is payable to Canadian residents over age 65 and provides a guaranteed minimum income to low income retirees,
2. the **"OAS"** is payable to over-65s but is taxed back entirely for high income retirees (those earning roughly twice the average industrial wage),
3. **"CPP"** is an employment- and earnings-related plan providing retirement benefits as early as age 60 as well as death and disability benefits. (The Province of Quebec has a similar program to the CPP, the QPP, but that program is outside the scope of this article.)

GIS and OAS are funded out of general tax revenue whereas CPP is funded from employer and employee payroll deductions. For those of you familiar with the U.S. Social Security system, CPP resembles OASDI. There is a popular perception that Canada is a "big spender" on social welfare programs. However payments from the three above-mentioned programs only represent 4.1 percent of Canadian GDP whereas the comparable figure for the United States is 6.0 percent.

The focus of this article will be on CPP but there will be some mention at the end of the article to possible reforms of the OAS and GIS systems that were announced in 2012.

DEC. 31, 1993 CPP ACTUARIAL VALUATION

Canada's government actuary (the "Chief Actuary") prepares statutory actuarial valuations for the CPP at least once every three years. The Dec. 31, 1993 CPP actuarial valuation revealed a deteriorating financial situation as a result of lower than expected contributions due to high unemployment and higher disability pension claims. In this report, the CPP pay as you go rate was projected to rise from 7.36 percent of covered payroll in 1994 to 14.2 percent in 2030 reflecting the aging of Canada's population. In contrast, the actual level of total contributions being paid by employers and employees was only 5 percent of covered payroll: the shortfall relative to actual benefit expenditures was being covered by interest income and capital from a small CPP fund invested notionally in provincial bonds. This CPP fund was forecast to be exhausted by 2015 under the current schedule of contributions. The Federal Finance Department feared that the ultimate CPP cost of 14.2 percent of covered payroll would be unacceptable to future generations of CPP members if premiums at this level were ever actually assessed. Thus reform was critical.

REVIEW OF CPP PROGRAM

In an act of rare political courage the Canadian Federal Minister of Finance (comparable to the United States Secretary of the Treasury for those familiar with that system) conducted a total review of CPP benefits, funding and investment policy. Simultaneously this same Minister was addressing the greater problems of the country's federal deficit and deteriorating international credit standing. This must be kept in mind as significant federal program cost-cutting was occurring at the same time as difficult reforms being undertaken for the CPP.

The Federal Minister of Finance solicited public input on CPP options from many bodies including the Canadian Institute of Actuaries (CIA). The CIA's input was largely incorporated into the ultimate CPP reforms so the actuarial profession was quite happy with its contribution to the process.

RESULTING CHANGES IN CPP BENEFITS, FUNDING AND INVESTING

A combination of benefit reductions and dramatic changes to its funding and investment policy resulted from the government's review of CPP and were reflected in the Chief Actuary`s Dec. 31, 1996 actuarial report.

1. **Benefit Reductions:** Changes in death, disability and pension provisions produced a long-term reduction in CPP costs of 1.1 percent of payroll. It should be noted that none of the benefit changes involved raising the age of entitlement despite the prevalence of this practice in other countries.

2. **Funding**: The federal politicians decided that future generations would never accept a total rate of CPP contributions as high as 10 percent of covered payroll since this was much higher than the perceived (and actual) value of the accruing benefits. Thus a new pattern of future contribution increases was calculated that would quickly create a large fund whose investment earnings would be sufficient to keep the long-term contribution rate below the psychologically-significant rate of 10 percent of pay. It was determined that this fund would ultimately stabilize at a size equal to 4.3 times annual CPP benefit payouts. To get to this large a fund, the total CPP contribution rate increased from 5.0 percent of covered payroll in 1994 to 9.9 percent in 2003. This did not produce a fully-funded pension plan in the manner of a funded corporate pension plan but rather created a steady-state funded status that stabilized contributions for the subsequent 75 years. It is important to note that several provisions were subsequently added to the CPP's regulations to preserve its steady-state funding. Firstly, if a subsequent actuarial valuation disclosed a long-term funding rate above 9.9 percent of pay, benefit reductions would be immediately implemented to bring the system back into balance. Secondly, any future improvements to CPP benefits could only be adopted if they were subsequently

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fully funded in accordance with private pension plan practices.

3. **Investment Policy**: Many Canadians felt that the former CPP fund containing notional provincial government debt did not constitute "real" assets backing up the CPP promises. More significantly the federal government concluded that the yields on this type of investment were much lower than could be achieved if the fund was invested more aggressively, i.e., in a manner more similar to a large private pension plan. The government also appreciated that such a large pension fund would need to be free of political interference so an independent investment board was established to oversee all CPP fund investment activities. The resulting structure was similar to that of other large trusteed pension plans. The Chief Actuary revised his long-term real (i.e., net of inflation) rate of investment return from 2.5 percent to 3.8 percent to reflect this change of investment policy. This change reduced the estimated long-term funding requirement by 1.5 percent of payroll.

ACTUARIAL CONTROVERSY

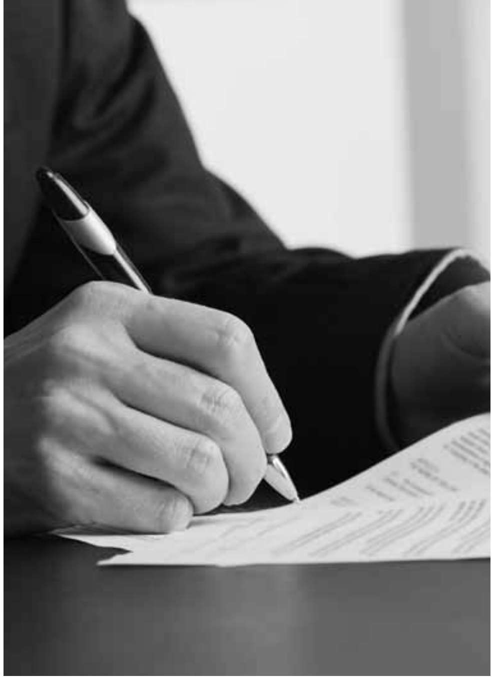
This entire process was not without some related controversy. A CPP actuarial valuation was prepared one year after the Dec. 31, 1996 valuation. Before it was finalized the Chief Actuary allegedly refused his boss' instruction to change a figure in this Dec. 31, 1997 report that would have showed that a contribution rate higher than the politically-sensitive 9.9 percent of payroll was required. The Government actuary was subsequently fired, purportedly for "management differences." The CIA formally expressed its strong concern over the independence of the Chief Actuary in this situation. As a result, the government invited the CIA to solicit its membership for a team to independently review the draft Dec. 31, 1997 CPP actuarial report. This independent actuarial review confirmed that a long-term contribution rate under 10 percent was still valid. However this controversy resulted in a new process under which all statutory CPP reports are peer reviewed by an independent actuarial committee made up of CIA volunteers.

Update on CPP and Other Reforms

The Chief Actuary produced a special statement to Parliament in 2010 reconfirming the stability of the long-term funding rate despite the decline in the CPP fund`s assets after the financial crisis. In a separate development, the current federal government has proposed in a March 2012 budget statement that it intends to raise the age of entitlement under the unfunded OAS and GIS programs from 65 to 67 over a period of years. This change will be phased-in starting in 2023.

Applicability of CPP Reforms to Other Countries?

The most radical aspect of the CPP reforms was to build up a very large fund and set up an independent board to actively manage its investments. This is an approach that has not been implemented in many other countries because it is feared that such a large fund would be subject to political interference. I would encourage the reader to go to the website (*www.cppib.ca*) of the independent board that manages CPP investments to see how they are structured to avoid political interference. They appear to have been successful in this regard and their investment portfolio includes a sophisticated range of domestic and foreign assets. Another obstacle to the CPP approach is that most governments see social security funds as captive buyers of their debt so do not want to



> Through the political courage of the federal Minister of Finance, not only did Canada's economy get put back on a solid footing but its pay-as-you-go social security system was converted to a "steady state" financing system that stabilized its funding for the subsequent 75 years.

diminish this market for their bonds. However I would argue that the CPP fund's mandate "to maximize returns without undue risk of loss" better serves the public than exclusively holding government debt.

In conclusion, the CPP reforms of the mid-1990s restored the public's faith in the security of the program and helped to stabilize costs between generations. Remarkably, it was undertaken during one of the darkest economic periods in Canada's history, thus refuting the argument that reforms can only occur in "good times." Unfortunately there is a bigger social security issue that Canada still has not addressed: reforming our health care system to make it sustainable over the long run. Hopefully another brave politician will emerge with the courage to address this issue. ☐

Javier Campelo, ASA, is the ambassador for Argentina and regional ambasador coordinator for Latin America and the Caribbean.

AMBASSADOR'S CORNER

The National Strategic Plan for the Insurance Industry in Argentina: Meeting of Actuaries at the Insurance Regulatory Body

By Javier Campelo

On May 11th, a meeting was held in Buenos Aires at the Superintendency of Insurance (SSN) with the leading actuaries in the country. The aim of this meeting was to present the National Strategic Plan for the Insurance Industry in Argentina (PlaNes 2012-2020) to the attendees and invite them to give their ideas and suggestions. The meeting provided an excellent platform for the actuarial community to voice their perspective. Amongst the speakers were the National Director of Financial Services at the Ministry of Finance, Fernando Maitini; the Regulatory Technical Manager at the SSN, Sebastián Marenzi and one of the Project Coordinators of PlaNes 2012-2020, Gustavo Blutman.

There were more than fifty very prominent actuaries in attendance, including the authorities at the different universities, clubs and bodies relating to actuarial studies in Argentina: the director and the vice-director of actuarial studies at the University of Buenos Aires (UBA); the director of Actuarial Studies at the University of Salvador (USAL); the president of the Actuarial Commission at the Professional Council of Economic Sciences (CPCE); the president of The Argentine Actuarial Institute (IAA) and Javier Campelo, the Society of Actuaries' ambassador for Argentina and regional ambassador coordinator for Latin America and the Caribbean (SOA), who arranged and organized the meeting following a request from SSN.

We are very thankful to Isidoro Felcman, the project director of PlaNes 2012-2020 and Santiago Fraschina, project coordinator of PlaNes 2012-2020 who promoted this meeting and the involvement of the actuarial community in this thoroughly worthwhile endeavor.

PlaNes 2012-2020 is driven by SSN, through the Superintendent of Insurance, Juan Bontempo, with the invaluable support of the Minister of Finance, Hernán Lorenzino. The main objective of the plan is to design the best policies for facilitating growth and development of the industry in the next decade. All the relevant parties, both in the public and in the private sector, will actively participate in this project. It includes the authorities of the different insurance and reinsurance chambers in Argentina, as well as: the associations of loss adjusters and expert witnesses; the unions of insurance workers; the consumer association bodies; the various sales associations; and different legal experts in this field.

On October 21st (the National Insurance Day), the Argentine President, Cristina Fernández de Kirchner, along with the authorities of the Ministry of Finance and the SSN, will be formally unveiling the Strategic Plan for the Insurance Industry to the Argentine nation. □

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International Meetings in Hong Kong

By Doug Carey

Nearly 300 actuaries from over 30 countries met from May 6–9 at the Sheraton Hong Kong Hotel & Towers. The event was a joint colloquium of three International Actuarial Association (IAA) sections—the Health Section (IAAHS), the International Association of Consulting Actuaries (IACA), and the Pension Benefits and Social Security Section (PBSS). The event was also supported by the Actuarial Society of Hong Kong and the Asia Pacific Association of Consulting Actuaries.

The overall theme of the event was *The Actuarial Profession and Social and Economic Development*. The keynote speakers provided an excellent overview of the region and topical issues, including:

- **The Role of the Actuarial Profession's Social and Ethical Mission** - Dr. Anthony Neoh, QC, SC, former chairman of the Hong Kong Securities and Futures Commission and chief adviser of the China Securities Regulatory Commission
- **Aging and its impact on Governments, Companies and Life & Health Insurance Products** - Paul Murray, FFA, managing director of Swiss Re Life & Health (Hong Kong)
- **Consumer Protection in the Insurance Industry** - Annie Choi, Hong Kong commissioner of insurance
- **The life and non-life insurance markets of Asia, the companies operating in them, and the changing definition of the "multi-national" -** Simon Walpole, FIA, principal & practice leader, Deloitte Actuarial and Insurance Solutions (Hong Kong) Limited

- **Social and Economic Trends in East Asia: Impact on Social Protection Systems** - Mitchell Wiener, FSA EA, senior social protection specialist, World Bank's Indonesia Country Office
- **The Role of Provident Funds in Social and Economic Development** - Cynthia Hui, FIAA, executive director (supervision), Mandatory Provident Fund Schemes Authority, Hong Kong

The various sections arranged break out sessions with a mix of speakers presenting papers and sharing their expertise.[1] The participating sections also took the opportunity to hold in-person general meetings of their membership.

The IAA is already planning for the 2013 colloquium in Lyon, France, June 24–26, in conjunction with the French *Institut des actuaires*. The participating IAA sections will be Actuarial Approach for Financial Risks/Enterprise Risk Management (AFIR/ERM), PBSS, and the Life Section. □

END NOTES

[1] Conference papers and presentations can be found at *http://www.actuaries.org/HongKong2012/papers_presentations.cfm?VIDEO=Y*

Alan Cooke is a retired actuary living in Vancouver, Canada. Alan is the Vice-Chairperson of Actuaries Without Borders and is the former Chair of the International Section of the Society of Actuaries. He may be reached at *vancooke@telus.net.*

The International Actuarial Association's Los Angeles Meetings

By Alan Cooke

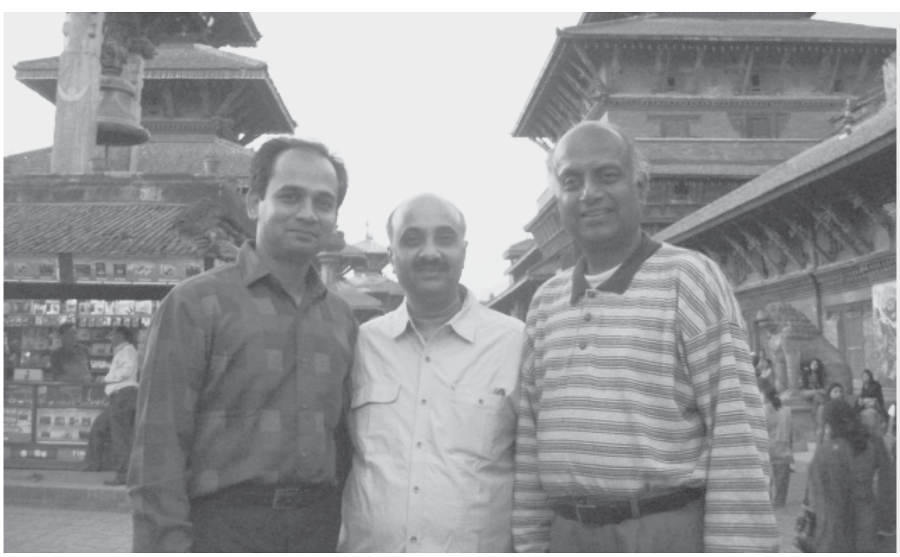
The International Actuarial Association held its annual Council and Committee meetings in Los Angeles from May 22 to May 26. Approximately 300 actuaries and their guests from around the world attended the meetings. These meetings immediately followed the Society of Actuaries Life & Annuity Symposium in the same venue. This article describes the role of the IAA and chronicles some of its activities in Los Angeles.

WHAT IS THE INTERNATIONAL ACTUARIAL ASSOCIATION (IAA)?

The IAA is the worldwide association of professional actuarial associations, with a number of special interest sections for individual actuaries. The IAA exists to encourage the development of a global profession, acknowledged as technically competent and professionally reliable, which will ensure that the public interest is served.

The mission of the IAA, as the worldwide organization of actuarial associations, is:

- to represent the actuarial profession and promote its role, reputation and recognition in the international domain; and
- to promote professionalism, develop education standards and encourage research, with the active involvement of its member associations and sections, in order to address changing needs.



Presenters at April 2012 seminar in Nepal.
From left to right: Mayur Ankolekar, Akshay Pandit and Manalur Sandilya. In the background, Durbar Square in Patan.

IAA BREAKFAST SEMINAR AT THE SOA LIFE & ANNUITY SYMPOSIUM

The first IAA activity in Los Angeles was a May 22 breakfast meeting for attendees of the SOA Life & Annuity Symposium. This session was moderated by Sunil Sen, a member of the SOA International Section Council and the secretary of the Actuaries Without Borders (AWB) Section of the IAA. Alan Cooke, the vice-chairperson of AWB, provided an overview of the IAA's structure. Currently there are 64 full IAA members (e.g., the SOA, CIA, AAA) and 28 countries with associate membership. Similar to the SOA, the IAA has numerous sections and committees. Alan mentioned that the AWB Section's role was to provide volunteers for projects in countries with developing actuarial professions. Peter Murdza, the chair of the AWB Education Subcommittee, followed with a discussion of the types of projects AWB undertakes. These were illustrated by describing (with many interesting photos, including the Nepal photo accompanying this article) actual AWB projects in Kazakhstan, Kenya, Azerbaijan, Albania and Nepal. Marc Slutzky, the chairperson of the IAA Life Section, closed the session with a discussion of the work of his section. The Life Section's role is to promote actuarial research and the exchange of knowledge in the field of life insurance around the world. The results of their research are shared through colloquia and seminars, bulletins and webcasts.

The full presentations from the breakfast session may be found at *www.soa.org/Professional-Development/Event-Calendar/2012/LAS/Agenda-Day-3.aspx*.

SUMMARY OF SUBSEQUENT IAA MEETING ACTIVITIES

The IAA has recently published a special edition of its newsletter summarizing the activities that took place at its Los Angeles meeting. This excellent summary may be found at: *http://bit.ly/Nqw0UF* ◻

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Increased Interest in International Plans

By Carl Hansen

Recently, we have seen renewed interest in the international (or "offshore") pension plan. An international plan typically provides benefits for internationally mobile workers of a multinational employer, but can also be used for certain other workers. The plan is usually located in a respected international finance centre.

There are several possible reasons for the recent renewed interest in international pension plans (IPPs). First of all, they remain an elegant and tax efficient way to provide retirement benefits for workers that might otherwise have little or no formal pension provision due to their working location or their mobile lifestyle. In an increasingly global economy, smaller "emerging" multinationals are facing some of the benefits issues once only affecting the very largest employers. There are many fast growing companies with only informal or less uniform pension promises in place for internationally mobile workers. Some employers may have established defined benefit IPPs many years ago, only to be discouraged by some of the general financial and administrative frustrations that have developed over the years with defined benefit (DB) plans. Those employers are now re-evaluating the IPP from a defined contribution or hybrid plan perspective in search of more flexibility and easier administration. A defined contribution (DC) or hybrid IPP can supplement or replace an existing DB IPP on a more cost effective basis.

A newer use for IPPs is to provide retirement benefits for local workers in countries with inadequate or less effective local options because of under developed markets for local pensions. These workers may be excluded from participating in local retirement plans or they

could be local workers with limited options. Typical countries where this approach is most effective are rich in minerals or other natural resources, so employers are often large international oil or mineral extraction operations.

INCREASED FLEXIBILITY

The new generation of DC IPPs are very flexible to meet the needs of a variety of employer types and sizes. Employer contributions can be uniform or vary according to home country, host country, age, service, or a variety of other criteria. Employee contributions may be tax effective depending on individual circumstances. Members can choose from a wide range of investment funds in various currencies to fit their own circumstances. Most

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plans provide some sort of a "lifestyle" fund as a default option for those employees wanting less involvement in the selection of their investments. Administration packages usually include secure websites allowing members to access and change their retirement accounts from anywhere at any time. Depending on the provider, administration services may be available only as part of a bundled package of services or the employer may be able to dictate their own level of involvement. □

The table below gives a brief comparison of funded plans, unfunded plans, and insured (or contract based) arrangements.

	FUNDED INTERNATIONAL PLAN	CONTRACT BASED ARRANGEMENT	UNFUNDED PLAN
Security	Security for members of externally funded pension	Security for members of externally funded pension	No security for members against employer insolvency
Flexibility	Flexible benefit and payment structures, currency	Inflexible, must fit within constraints of insurance contract. May have limitations on currency for premiums and payments.	Flexible benefit and payment structures, currency
Investment Choices	Flexible investment choices	May have limitations on investment choices	N/A
Costs	Transparent costs; investment returns provide additional benefits	Cost of providing benefits is relatively high, including insurer's expenses and profit	May have cost savings on administration or investment expenses

Mark your calendars!

The Singapore Actuarial Society is the host of the 17th East Asian Actuarial Conference (EAAC), "Redefining Risk, Creating Value" being held at Resorts World Singapore from October 14-17, 2013. The EAAC brings together actuarial professionals in the Asia-Pacific region to discuss various international and topical issues. If you are not familiar with Singapore, Resorts World is the premier destination in Singapore, with Universal Studios located on site. Other attractions include the casino, shopping and famous Singaporean food. For more details see *www.rwsentosa.com.*

We will continue to provide more details closer to the date.

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International Section Survey Summary

By Michael Witt

Earlier this year, the International Section Council conducted a survey of International Section Members and other interested parties. The purpose of the survey was to help the council better understand the composition of the membership they serve, focus on those areas that provide value to the member, and develop future goals and objectives. This article will provide a brief summary of the survey results and how those results will impact council actions going forward. It is important to emphasize that the survey is not the membership's only opportunity to make its voice heard. The council always welcomes input, which can be directed to Jill Leprich, the SOA International Section Specialist. Her email is *jleprich@soa.org*.

We received a total of 227 responses, 70 percent of which are International Section Members. Of all respondents, 35 percent are based in the United States or Canada, 30 percent are based in Asia, 20 percent are based in Europe, and the remaining 15 percent are based in Latin America, the Caribbean, Africa, the Middle East, or Australia/New Zealand. A little over half of the respondents specialize in Life Insurance, with a significant number of respondents also specializing in Retirement Systems, Risk Management, Health Benefit Systems and Finance. About half of respondents work for insurance companies, 20 percent work for consulting firms, 12 percent work for reinsurance companies, and the remainder work for other employer types.

Among the respondents that are members of the International Section, 55 percent are either very satisfied or somewhat satisfied with their section membership, 40 percent have a neutral level of satisfaction, and 5 percent are either somewhat dissatisfied or very dissatisfied. The aspects of membership that are most important to the members are the newsletter and sponsored meetings or seminars. Slightly less important to the members are local networking events and communications from the council.

Regarding the ambassador program, about 65 percent of respondents are either not very familiar or not at all familiar with the program. Another 25 percent are only somewhat familiar, leaving only 10 percent that are very familiar with the program. Only about 20 percent of respondents know who their local ambassador is, and about 70 percent of those have had some interaction with their ambassador in the past year. The council is working to raise awareness of the ambassador program, and will work with the different ambassadors to help them in their duties. Members and other individuals can also learn more about the ambassador program on the section webpage: h*ttp://www.soa.org/Professional-Interests/International/intl-ambassador-program.aspx.*

The survey produced a number of good ideas for how *International News* can be improved and topics that respondents would like to see. These include more locally relevant content, high level summaries of different markets, and challenges of being an international actuary. We will incorporate these ideas into future issues of the newsletter. Additionally, we would encourage individuals to submit articles or to contact the editorial staff to determine if an article idea would be suitable for the newsletter.

Regarding educational activities, the survey respondents ranked International Financial Reporting Standards (IFRS), Country-specific Information, and Economic Capital/Solvency II as the topics that they would most like to see covered by meetings or seminars. Respondents also showed interest in a variety of other topics. The council is working to expand the offerings available to its members, including options that will be more convenient in terms of time and location, and that will provide more local content.

The council would like to thank all those who responded to the survey, and would encourage you to participate in future surveys. □

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