INTERNATIONAL ACTUARIAL ASSOCIATION
Pensions and Employee Benefits Committee (PEBC) Meeting
Cape Town, South Africa

Part 1: Saturday, November 19, 2016 – 10:30 – 12:30 and 14:00 – 15:30
Part 2: Sunday, November 20, 2016 – 13:30 – 15:30
Minutes

The list of attendees is at the end of these minutes.

1. Opening of the meeting

Yasuyuki Fuji, Chair of the Pension and Benefits Committee (PEBC), opened the meeting and welcomed all attendees. Committee members and observers introduced themselves.

2. Minutes

The minutes of the last meeting, held on 27 and 28 May 2016 in St. Petersburg, were approved as presented.

3. Structure

To set the context for the two days of meetings, the Chair led a discussion of various relevant IAA and committee structural and operational matters.

a. Reminder of IAA strategic plan

The Committee was reminded of the importance of orienting its work to the IAA's strategic plan. As such, each item in the agenda references the related Strategic Objective.

b. Overview of MOUs

The Chair provided an overview of the various activities with organisations for which the IAA has a Memorandum of Understanding as well as other supranational organisations.

c. Terms of Reference

The updated ToR of the Committee was provided in the material for the meeting. The Chair stated the attached ToR reflect the amendments made based on the PEBC's approval in the previous meeting and the EC's decisions updated across the committees.

4. Funding Monograph

Charles Cowling led a discussion on the latest draft of the pension funding monograph. There was general agreement that the monograph should now proceed to publication, but that any final comments on the document should be sent to Charles by the end of the year. Charles also requested that those who had drafted case studies should complete the extra standard questions by the end of the year. Additionally the following points were made / agreed:

- The OECD material should be included as an appendix and clearly identified as OECD material rather than included within the body of the report.
- There should be suitable [legal] disclosures added to the document

Charles commented that he was meeting Pablo Antolin from the OECD in London shortly after the Cape Town meeting and will discuss with him the possibility of a joint publication with the OECD. It was agreed that a joint publication with the OECD would be preferable if possible, but in any event we should seek to publish the document in 2017. However, it would be worth a delay of 6 months if this means we could publish jointly with the OECD.

Charles also agreed to investigate the formal IAA process for publishing a document such as this and also to find out what IAA resource is available to help improve the presentation of the document. Subject to the response from the OECD, Charles agreed to have the final document for publication ready for the IAA meeting (April 2017) in Budapest.

5. De-Risking

Heidi Rackley and Ted Goldman led the group in a discussion on the recent risk transfer activity in the United States. Several types of transfer are currently being performed in the United States such as annuity purchases for a group of retirees, lump sum transfers for terminated participants and spinoff for some active participants. The presenters also summarized a paper that was published by the American Academy of Actuaries which describes the roles and impact of these transactions for the various stakeholders.

Following the presentation, the group had a discussion on the opportunity for the committee to undertake a project to better understand these types of transactions globally. The group also discussed the potential to develop a matrix which describes risk sharing mechanisms between employer and employees. Heidi Rackley volunteered to lead a group to develop potential ideas for these two topics.

6. Pension & Employee Benefits Accounting Subcommittee

Jason Malone updated the Committee on PBAS activities which was discussed in more details at the PBAS meeting earlier on November 18.

The main focus of the work has been on the projects currently underway at the IASB including the discount rate project, an amendment of IAS 19/IFRIC 14 and the upcoming hybrid project. The subcommittee also discussed at great lengths the split discount rate issue and the concept of biased assumption for discount rate. A call will be scheduled in the coming weeks to further the discussion and determine whether or not it will undertake a project to address these issues.

7. OECD and IOPS

Esko Kivisaari updated the committee on OECD and IOPS activity since the St. Petersburg meeting. Details of the discussion can be found in the report provided for the committee meeting.

Further in the meeting Esko Kivasaari announced that he will no longer serve as the link between the OECD and the PEBC. He nominated Christelle Dieudonne to replace him. The committee approved the nomination.

8. Financial Economics Principles Applied to Public Pensions

Tonya Manning led a discussion on the current situation of pension plans for public entities in the United States. The reason for having this conversation is a result of articles written in

response to a paper drafted (but not published) by a joint task force between the Society of Actuaries and the American Academy of Actuaries. The joint task force, which has since been disbanned, focused on the application of financial economics to the funding and risk management of pension plans. The draft paper focused on areas of controversy in the US around how best to value and fund a public pension plan. Several articles were written in well known news outlet noting the "non-release" of the paper, as well as the financial situation of public pension plans. Some articles went further to criticize the actuarial support for the plans. It should be noted that there are several US public pension plans that are very poorly funded with grim outlooks. At the time of the committee meeting, it appeared the SOA would be able publish the article, along with comments, in their publication Pension Forum, but ultimately this was not able to be worked out.

9. Round robin update of national developments

- US – PBGC discussion. Multiemployer issue with teamsters and no political will to do anything more; pension coverage mandatory
- Canada – CPP expansion; move from security to affordability
- Netherlands – loss of trust in pension plans and insurance companies; move in DC plans; not age related.
- Mexico – tax eligibility change
- Ireland – The regulator wants to reduce the number of small DC plans by merging and to improve knowledge of trustees. The statutory valuation requirement is a windup basis and many plans will not meet requirements thus need to set a recovery program in place to return to solvency
- UK – very active in the UK. Change in model from taxed in payment TO taxed in savings; Benefits could be reduced but very difficult.
- Swiss – cash balance plans and rates provided. Retirement ages; lump sum possibility
- Norway – the proposed solvency requirements for pension funds are stronger than in EU (IORP directive)
- Japan – DC – coverage will be expanded, DB – so-called risk sharing will be allowed under the regoros condition
- Sweden – transition from DB to DC but all is ok
- Belgium – new website on
- Portugal – generational inequities between young and old ie dc vs db; 70 retirement age

10. South African experience

Marius du Toit presented an overview of the South African pension system. The SA population of 54m is relatively young, and the life expectancy at birth is about 59 for males and 63 for females. There is a wide range of social security grants, the most important of which are Old Age grants and child support grant, both are means tested. Private pensions are very important, and assets is 96.8% of GDP. Total assets are in the order of $262,660m, the number of funds is 5144 and the total number of members are 15,9m. Funds have s separate legal personality, and are managed by a board of trustees. Member elected trustees must

comprise at least 50% of the board. Most pension funds have converted to DC. In terms of number of funds 90% are DC, and in terms of assets 77% are DC. Asset exposure is regulated through prudential investment guidelines. The main exposures are to equity (53%). The 2 main types of fund are pension funds and provident funds. In a pension fund a maximum of 1/3 of the amount can be taken in cash, whilst an annuity must be purchased with the balance. In a provident fund the entire amount can be taken in cash. Current reforms aim to encourage household savings by prescribing the requirement to have various defaults, e.g. with regards to preservation, investments and annualization. There is also an attempt to lower costs by encouraging consolidation of funds. The supervisor is moving towards a twin peaks regulatory system, whereby prudential regulation will be done by the central bank and market conduct supervision by the Financial Service Conduct Authority. A particular problem in SA is the extent of unclaimed benefits, somewhere between 1.5% and 2% of total retirement assets. The regulator recently issued a directive in respect of valuation basis and method to be followed. A fund is considered financially sound of assets exceed liabilities on a basis where the discount rate is based on expected returns. Surplus may only be used if assets exceed liabilities on a basis where the discount rate is based on bond rates.

11. AAE update

Philip Shier presented an update from the Actuarial Association of Europe (AAE) which covered three topics.

- IORP (institutions for occupational retirement Provision) II Directive

  The Directive was agreed in June 2016 and was expected to come into force shortly, following which member states of the EU would be required to implement it within 2 years. The Directive improves pension funds' governance, increases transparency of information to pension scheme members and beneficiaries, improves supervision of pension funds and lays down new rules for cross-border activities and transfers.
  Philip commented in particular on two of the new provisions in relation to governance – the requirement for DB schemes to have an actuarial function, and the requirement for IORPs to prepare an own risk assessment on a regular basis. The AAE would be undertaking further work on these aspects.

- Common Framework for Risk Assessment and Transparency for IORPs

  EIOPA had issued advice to the European Commission in April which recommended a common framework for risk assessment and heightened transparency for pension funds which they considered would strengthen regulation and contribute to the sustainability of occupational pension promises and the protection of members. Pension funds should conduct a standardised risk assessment to calculate the impact of stress scenarios on their financial situation, with public disclosure of a market-consistent balance sheet and the outcomes of the risk assessment.

  AAE welcome the development of good practices for an own risk assessment but are not convinced that a Common European Framework is needed. The own risk assessment should be done on a local basis and overseen by the national supervisor. It should not be mandated that the results of the risk assessment should be publicly available. AAE also suggests including DC IORPs in the risk assessment and transparency framework. This has not much relevance for IORPs, nor for the sponsor, but is extremely relevant for the members.

- Pan-European Personal Pensions

  There have been further consultations on this issue. AAE has input to the consultations, commenting particularly on the need for a default investment strategy during the accumulation period, and the desirability of flexibility in the payout phase but with lifetime annuity as an option. The European Commission is expected to bring forward proposals shortly which would provide for a personal pension product regulated on a pan-European basis.

12. PEBC contribution to the ICA

The Chair encouraged Charles and Heidi to contribute to the ICA representing the Committee regarding Funding Monograph and De-risking respectively. They agreed and all attendees of the meeting were supportive.

13. PBSS Colloquia

Abe Hernandez presented a video introducing the PBSS colloquium in Cancun Mexico in 2017.

14. Next Meeting

The next meeting of the IAA will be in Budapest, Hungary between 19 and 23 April 2017.

Attendance:

Attendees	Part 1: Saturday, November 19, 2016	Part 2: Sunday, 20 November 2016
Yasuyuki Fujii, Chairperson	√	√
Jason Malone, Co-Vice-Chair	√	√
Philip Shier, Co-Vice-Chair	√	√
Urs Barmettler	√	√
Nils Berner	√	√
Charles Cowling	√	√
Barbara D'Ambrogi-Ola	√	
Philippe Dermol	√	√
Jan Kars	√	√
Ken Hohman	√	√
Heidi Rackley	√	√
Ana Ramos Estrela	√	√
Kenji Sekine	√	√
Odd A. Svendsen	√	√
Bob Scott	√	√
Thomas Levy	√	√
Tonya Manning	√	√

Ex-Officio Tim Furlan	√	
Esko Kivisaari	√	√
Observers		
Rob Brown	√	
Don Fuerst	√	√
Doug Carey	√	
Attendees	**Part 1: Saturday, November 19, 2016**	**Part 2: Sunday, 20 November 2016**
Ted Goldman	√	
Stuart Leckie	√	
Marius Du Toit	√	√
Stuart Leckie	√	
Anne Magnussen	√	
Christelle Dieudonne	√	
Adam Reese		√
Niel Fourie		√
Abraham Hernandez Pacheco	√	√
Toshiaki Uetani	√	
Janet Barr	√	
James Verlautz	√	
Phillip Merdinger		√
Nobu Shimizu		√
James Verlautz	√	√
Gerd Warnke	√	
Carlos Lozano	√	√