INTERNATIONAL ACTUARIAL ASSOCIATION

Pensions and Employee Benefits Committee (PEBC) Meeting
The Westin Bayshore Hotel, Vancouver, British Columbia, Canada

Part 1: Thursday, October 15, 2015 – 8:00 – 12:30
Part 2: Friday, October 16, 2015 – 14:00 – 18:00
Minutes

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

Part 1: Thursday, October 15, 2015 – 8:00 – 12:30

1. Opening of the meeting

Tom Terry, Chair of the Pension and Benefits Committee (PEBC), opened the meeting and welcomed all attendees. Following introductions of committee members and observers, the Chair recognized two guests:

- Greg Heise, and
- Frank Todisco, Chief Actuary, US Government Accountability Office (GAO)

2. Minutes

The minutes of the last meeting held on 9 and 10 April 2015 in Zurich, 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. Prior to starting the discussion, the Chair reminded committee members about the importance of explaining the various acronyms being used during discussions as well as the importance to speak clearly so that everyone understood the discussions especially those that do not speak native English.

a. Reminder of IAA strategic plan

The Committee was reminded of the importance of orienting its work to the IAA's strategic plan. The Chair provided an overview of the plan to the Committee.

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 associations.

c. Work plan

The current workplan for the Committee is provided in the material for this meeting. The Chair stated the importance of the relationships with the various supranational bodies and commended the efforts by several of the Committee members to maintain and grow these relationships.

4. International Standards of Actuarial Practice and IANs (Yasuyuki Fujii)

International Standards of Actuarial Practice 3 (ISAP 3) on IAS 19 Employee Benefits was adoptd by the IAA council on 11th April 2015. A webcast on ISAP3 was held on June 24, 2015.

Following the discussion at the prior meeting in Zurich, Yasuyuki Fujii led the discussion on possible topics that could be addressed as a possible IAN. It was reiterated that the list discussed at the last meeting were items left out of ISAP3. A discussion took place on potential topics but the group agreed that notes should be topical to get the attention that it deserves. An example of such note is the recent document by the American Academy of Actuaries entitled Alternatives for Pension Cost Recognition - Issues and Implications. The committee then discussed the potential for it to be an intermediary of these notes from the various FMAs rather than be the developer of notes. The chair later noted that the committee website could be a "holder" of these documents for members to reference. The discussion concluded by the Chair encouraging members to continue to think about this and to offer potential topics or methods for the committee to better distribute knowledge of these notes.

5. Pension and Benefits Accounting Subcommittee (PBAS) report and discussion – Part 1

Tim Furlan updated the Committee on PBAS activities.

PBAS has been active since the last committee meeting. The PBAS and the Insurance Accounting Committee (IAC) held a joint call with the IASB on the IASB's Discount Rate project following the Zurich meetings in April. The IASB provided some draft papers on the discount rate projects that were to be discussed at IASB forums. PBAS is also working with the IAC on the conceptual framework review performed by the IASB.

PBAS commented on the IASB exposure draft (ED 2015/5) Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan: Proposed amendments to IAS 19 and IFRIC 14. As the title describes, the proposed amendment covers changes to asset ceiling and treatment of settlements, curtailments and past service costs. The comments noted that third party powers are more complicated than presented by the IASB – the changes proposed by the ED risk distraction with form rather than substance. We also noted competing arguments over impacts of settlement, curtailments or past service costs over the asset ceiling and raised concerns with potential inconsistencies from wholesale remeasurement following a settlement, curtailments or past service costs.

Jim Verluatz discussed the alternative discount rate methodology adopted by AT&T earlier in 2015. The methodology as well as other possible approaches was discussed in the note published by the American Academy of Actuaries.

6. IMF book on stress-testing of pension plans

The topic was not discussed but will be put on the agenda for the next committee meeting.

7. Funding Monograph

Charles Cowling led a discussion on the funding monograph currently being drafted. The discussion was more about the structure of the document rather than content. It was suggested to build strong case studies that will guide the reader to the various methods used to fund plans. It was also reiterated that the intention is that this monograph be a helpful, straightforward document, for actuaries and non-actuaries alike, providing a useful, readable overview of current pension funding topics with a particular emphasis (directly or indirectly) on where actuaries add value in the funding process. Also noted was a meeting held the day before with some of the drafting committee members to discuss next steps.

8. Canada update

Our guest Greg Heise, an actuarial consultant in the pension sector in Canada, led the group in a discussion about the pension landscape in Canada. Pension benefits are provided by three different sources also refered to as the "three-legged stool": government, employer and personal savings. The presentation initially described the various benefits programs sponsored by the government as well as the level of benefits provided by them. The benefits provided by the Guaranteed Income Supplement (GIS), Old Age Supplement (OAS) and the Canadian Pension Plan (CPP) replace income very well for lower income Canadians but as income increases support from these benefits decreases and provide limited support. Employer programs can be divided into two broad types of pension plans – Defined contributions and defined benefit plans. The federal government establishes maximum amounts that can be provided and/or contributed in these programs and provincial governments are responsible for minimum requirements as well as the federal for certain industries. Defined contribution plans are becoming the main vehicle for employers to provide pension benefits to their employees but define benefit plans still constitute a large portion of the coverage in Canada especially in the public sector. Finally, Mr Heise addressed the personal savings leg. Canadians have two main types of vehicules for retirement savings: Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TSFAs). RRSPs contributions are made from pre-tax income and limits are determined each year by the federal government. The maximum are linked to the workplace program if any so to be equal to all Canadians. The maximum contribution in 2015 was the lesser of 18% of earnings and 24,930. TFSA contributions are made for post-tax income where capital gains are not taxed.

Several reforms are currently underway in Canada in many provinces in the private and public sector. Proper coverage as well as having a system that is sustainable is being debated across Canada. Workplace programs are seing significant innovations in Derisking strategies such as longevity swaps, cost sharing mechanisms with employees and establishment of new plan designs such as target benefit plans. Target benefit plans are now available in some provinces but still scarce in utilisations. The expansion of the CPP with increase of benefit is being debated by politicians and some provinces are proposing their own benefits enhancement to run in parallele to the federal program.

9. Round robin update of national developments

- Mexico – Government recently cut fiscal advantage to contribution to plan sponsor and individuals. The OECD published report on the Mexican retirement system. http://www.oecd.org/daf/fin/private-pensions/oecd-review-pension-systems-mexico.htm
- Germany – Discount rates are average of 7 years for funding purposes but best estimate for all other assumptions. Pure DC account currently does not exist in Germany but it will be introduced for union groups only.
- Switzerland – Interest rates are a little more negative.
- Souh Africa – Currently retirement reforms; three values of liabilities – assumed return, surplus only beyond termination; 90%.
- UK – The last stages of auto-enrolment were being rolled out covering small and micro employers and contributions being stepped up. The last stage covers 1.8m employers and will put the system under strain. Freedom and Choice (the requirement not to buy an annuity) was now being rolled out. To date only small pension pots had been withdrawn and the Government was looking at whether there were any barriers to members accessing benefits.

- France – Currently a second pillar reform – large deficit so asking participants to work longer to get pension.
- USA – Multiemployer plan reform currently underway which may bring benefit cuts.
- Australia – profession is talking about what is adequate retirement income.
- Ireland – There is a change of practice around winding-up/terminating of pension plans. Advice of actuary to determine what is acceptable funding beyond statutory requirements. Qualifications for trustees being more informed and help better governance.

-End of Part 1-

Pensions and Employee Benefits Committee Meeting

Part 2: Friday, October 16, 2015 – 14:00 – 18:00

10. US study of discount rates

Frank Todisco, Chief Actuary for the Government Accountability Office (GAO) of the United States government presented a summary of the report his office produced on the study of pension discount rate issues. The GAO is part of the legislative branch of the American federal government and acts as the investigative arm of the US Congress. In the past few years, the GAO published other reports that discussed areas of concern for pension plans in the public sector. In 2010, a report showed an increase over time in risky assets in investment policy. A report in 2012 demonstrated the impact of the financial crises on the design on state-sponsored pension plans. The report in question in this presentation was published in 2014 and focuses on the discount rates used in the public sector as well as the private sector including a comparaison with discount rates used in Canada, the Netherlands and the United Kingdom. After an introduction the various approaches that could be used to determine a discount rate to value a pension obligation, Mr Todisco provided an overview of the approaches used in the United States and the range of rates that result from those various approaches as seen below.

Applicability	Discounting premise	Discount rate
Public sector sponsors	Assumed return	7.72%
Multiemployer plans	Assumed return	7.52%
Private sector **single-employer** sponsors, **funding, post-MAP-21**	Corporate bond rates averaged over 25 years	4.94% (0-5 yrs) 6.15% (5-20 yrs) 6.76% (20+ yrs)
Private sector **single-employer** sponsors, **funding, pre-MAP-21**	Corporate bond rates averaged over 2 years	1.28% (0-5 yrs) 4.05% (5-20 yrs) 5.07% (20+ yrs)
Private sector **single-employer** sponsors, **financial reporting**	Corporate bond rates, no averaging	4.88%
PBGC	Group annuity prices	3.00% (0-20 yrs) 3.31% (20+ yrs)

After noting some of the various considerations in the methodology to be used, he noted the two opposing views on sustainability where a mark-to-market measurement can bring volatility but more flexible rules may reduce volatility with the associated shortfalls in times of crises. The Actuarial Standard Board is currently reviewing comments provided following its request to see if more guidance is needed for discount rate setting in public plan valuations.

11. Pension and Benefits Accounting Subcommittee (PBAS) Report and Discussion – Part 2 IASB conceptual framework consultation

Tim Furlan updated the committee on the IASB's conceptual framework consultation paper. The update noted that the framework does not have any direct effect on current accounting requirements but exists to guide the development of future standards. There are a number of areas in the proposed framework that have implications for pension accounting, in particular discussion on other comprehensive income and which of the measurement approaches set out in the framework is applicable to pensions.

It was noted that a joint taskforce of the PEBC and Insurance Accounting Committee has been established to prepare an IAA submission on the consultation paper.

12. Organization for Economic Cooperation and Development (OECD)

Esko Kivisaari introduced the newly estblished OECD Subcommittee. The intention of this subcommittee is to co-ordinate joint IAA and OECD activities. The Subcommittee will also discuss IOPS (International Organisation of Pension Supervisors) issues in accordance with the MoU between the IAA and the IOPS.

The IAA/OECD Memorandum of Understanding (MoU) serves as a framework for the subcommittee in carrying out its role.

- Review the MOU on a regular basis, suggest changes when appropriate and discuss renewal at the end of the specified term;
- Evaluate OECD initiatives from an actuarial perspective;
- Determine whether the IAA can provide actuarial input and assign to relevant IAA delegate;
- Ensure that the IAA is represented at relevant OECD meetings and seek OECD participation in IAA events, where relevant;
- Exchange information on respective activities, subject to the Parties' respective rules on the classification of information;
- Establish informal joint discussion groups or task forces, as required; and
- Help organize joint events and work on joint projects, where appropriate.

The Subcommittee will seek members that will liaise between this Subcommittee and the respective Committees/Working Groups.
Current members of the Subcommittee are:

- Esko Kivisaari (Chair of OECD Subcommittee)
- Tom Terry (Chair of Pensions and Employee Benefits Committee)
- Dave Sandberg (Chair of Insurance Regulation Committee)
- Yas Fujii (incoming Chair of Pensions and Employee Benefits Committee)
- Régis De Laroullière
- Thierry Poincelin
- Ana Ramos
- Joe Nichols
- Philip Shier

During the Vancouver meetings the following contacts were established:

- Health Committee liaison: Christelle Dieudonné
- Social Security Committee liaison: Barbara d'Ambrogi-Ola
- Population Issues Working Group liaison: Assia Billig
- Resource and Environment Working Group: Steve Lowe - primary representative. Sam Gutterman, Simon Brimblecombe and Ken Donaldson would like to be informed

During the Vancouver meetings, the Mortality Working Group also expressed a desire to be included in the group.

The activities of the Subcommittee have been in the following areas:

- Preparations for and participation in the OECD Paris June 2015 meetings:
  - Working Party of Private Pensions WPPP (and IOPS Technical Committee)
  - Insurance and Private Pensions Committee IPPC
- Renewal of the MoU between the IAA and the OECD
- Finalisation of our joint paper with the IOPS
- Preparation of IAA comments to "Consultation on the OECD Draft Recommendation of The Council on The Core Principles of Private Pension Supervision"
- Preparations for OECD meetings in December 2015

Central issues in the Working Party of Private Pensions meeting in June 2015 were

- Core Principles of Private Pension Regulation was to the surprise of many discussed in the closed session. During the review of the document, we noted that many of the comments submitted by the IAA two years ago on the funding principles section are now reflected in the current version. The document is now under consultation and the Subcommittee is in charge of developing the IAA submission.
- "Risk management of annuity products". One of the merits of the document was that it contained nice classification of annuity products into three categories. Risk management was discussed very much from the matching point of view.
- The paper titled "Low interest rate environment: can pension funds and insurance companies keep their promises" was discussed and presented after the meetings in the global financial outlook seminar.
- "Role of actuarial review and calculations in pension supervision" is a project done together with the IAA and the IOPS. More on this issue little later on.
- IOPS also has a project on "Target retirement income". This could be an area where the IAA could play a stronger role.
- On projects in progress there is a fairly interesting issue of larger pension funds. There is no acute need to discuss possible systemic risks of pension funds but IOPS is preparing itself to this discussion if there will be a need in the future.

Central issues in the Insurance and Private Pensions meeting in June 2015 were:

- Roundtable on the evolving insurer governance practices
  - Including presentation by Dave Sandberg
- Risk management of annuity products – same as in WPPP
- Disaster risk financing and insurance, which looks like a promising area of cooperation
  - Climate change and insurance
  - Financial management of flood risk
  - Review of implementation of the OECD Recommendation on Good Practices for Mitigating and Financing Catastrophic Risks (2010)
- Institutional investors and long-term financing which exists also in WPPP meetings
  - Draft G20 report on regulation of insurance company and pension fund investment
  - Draft taxonomy of instruments and incentives

- It is to be noted that future work includes much emphasis on consumer protection and market conduct.

In connection to the June meetings, the renewed MoU between the OECD and the IAA was signed on behalf of the IAA by Malcolm Campbell.

We discussed also possible new areas of cooperation in Paris. Nothing concrete was started but something around the virtues of pooling could be possible.

The input from other committees and working groups on possible new areas of interest between the OECD and the IAA were:

- from the Insurance Regulation Committee – the Risk Book should be presented to the IPPC
- from the Health Committee – genomics and personalised health care could be a good topic. The Health Committee also has a briefing paper on OECD that is interesting. Christelle promised to help in establishing contact with relevant persons in the OECD.
- from Social Security Committee – it would be good to get better information on the so-called OECD black box of doing forecasts. Also contact should be established with the actuary working in the OECD in the area of social security.

13. International Organization of Pension Supervisors (IOPS)

The IOPS has together with the IAA produced a paper on the role of actuarial review and calculations in pension supervision. The paper is based on questionnaires sent to IOPS members and to members of the PEBC of the IAA, show, among other things, that:

- With the move away from DBs and concern about increasing individual risks, reform considerations may include focus on the Target Retirement Income concept which may see the increased need for actuarial professionals in DC schemes.
- As a measure of due diligence, supervisors must exercise care and be particularly keen when relying on reviews especially in cases where the local professional association is not strong.
- Supervisor with limited oversight over the actuarial professional must take an active role in reporting issues to the professional associations to deter negligent behaviour/unprofessional conduct.
- Even where supervisors may require removal of the professional from a post, they should go a step further to advise local professional association of professional misconduct.

The paper was approved by the PEBC and it is ready for publication as far as the Committee is concerned.

IOPS was interested in new projects with the IAA. We promised to return with our proposals. One possible idea would be to work on target benefit plans and the role of the actuarial profession therein.

In the future the Subcommittee will work on the following:

- Both the WPPP and the IPPC have next meetings in Paris between 30 November and 4 December and these meetings need preparation.
- a special session on climate change and the insurance sector on 3 December, with high level speakers from the government, industry and academic as it will be held during COP21. SOA will be sending a speaker given a paper they have written on the topic of climate change.

14. Actuarial Association of Europe (AAE) update

Philip Shier noted that he had given a comprehensive summary of European and AAE issues in the recent webinar [link]. He drew attention to two topical issues: (i) the review of the IORP (pensions) Directive, which included the introduction of an actuarial function as part of the governance structure, but with no requirement that the function holder be an actuary (which the AAE were trying to have amended), but which did not, as previously announced, impact on solvency or capital requirements and (ii) the proposed introduction of a Personal Pension product which would be regulated on a pan European basis.

Attendance:

Attendees	Part 1: Thursday, October 15, 2015	Part 2: Friday, October 16, 2015
Tom Terry, Chairperson	√	√
Yasuyuki Fujii, Co-Vice-Chair	√	√
Philip Shier, Co-Vice-Chair	√	√
Urs Barmettler	√	√
Nils Berner	√	√
Charles Cowling	√	√
Barbara D'Ambrogi-Ola	√	√
Philippe Dermol	√	√
David Fairs	√	√
Alfred Gohdes	√	√
Ken Hohman	√	√
Jason Malone	√	√
Heidi Rackley	√	√
Donald Segal	√	√
Kenji Sekine	√	√
Executive Committee Liaison Dave Sandberg	√	
Ex-Officio Tim Furlan	√	√
Esko Kivisaari	√	√
Observers		
Mortez Aalabaf-Sabaghi	√	√
Assia Billig	√	
Richard Deville	√	√
Christelle Dieudonne		√
Marius Du Toit		√
Niel Fourie		√
Greg Heise	√	
Abraham Hernandez Pacheco		√
Heather Jerbi	√	√
Jan Kars	√	
Tonya Manning		√
Hillevi Mannonen	√	
Jean-Claude Ménard	√	
Phillip Merdinger	√	
Nobu Shimizu	√	

Frank Todisco	√	
James Verlautz	√	√
Flavio Vieira Machado Da C. Castro	√	