Newsletter
April 2005
The Society of Actuaries in Ireland

President's Biennial Dinner

Harvie Brown, President, Faculty of Actuaries; Pat Healy, President, Society of Actuaries in Ireland; Alf Guldberg, President, IAA; Seamus Creedon, Treasurer, Institute of Actuaries

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The President's Biennial Dinner, hosted by Pat Healy, was held in the Westin Hotel, on Thursday 10th February.

The President's table included Senator Joe O'Toole, Alf Guldberg, President, IAA; Harvie Brown, President, Faculty of Actuaries; Seamus Creedon, Treasurer, Institute of Actuaries; Tom Considine, Secretary General, Department of Finance; John O'Neill, Chief Executive, AXA; Liam O'Reilly, Chief Executive, IFSRA and Joan Healy. The other tables in the magnificent Banking Hall were hosted by Past Presidents of the Society and included representatives from Government Departments, kindred professional organisations and other members of the business community as well as members of the Society including, Council and Committee chairpersons.

Having welcomed the guests and thanking the overseas visitors for travelling, the President, Pat Healy went on to make the following remarks:

The Society of Actuaries in Ireland is small in numbers, by the standards of other professional bodies, although clearly we have come a long way since the foundation of the Society 33 years ago. Despite our small numbers, I believe we are in a privileged position in terms of influence and access to regulators, government and consumer representatives. That privilege brings with it considerable responsibility and is at the heart of our Mission Statement claim of "serving the public interest".

continued

Members and Guests Enjoying the President's Biennial Dinner

Paul Duffy, Council Member of the Society; Elma Lynch, representing the Law Society and Pat Healy, President.

Dervla Tomlin, Honorary Secretary of the Society and Frances Kehoe, Council Member of the Society.

David Nolan, SC, representing the Bar Council; Colm Fagan, Vice-President of the Society and Mike Frazer, Life Actuary, IFSRA.

Adrian Daly, Past President of the Society; Paddy Maher, Past President of the Society and Louis Slattery, Chairman, Retirement Planning Council.

Declan O'Neill, Council Member of the Society; Patricia Byron, Personal Injuries Assessment Board and Catherine Hogan, CIMA.

Paul Kenny, Pensions Ombudsman; Gerry O'Carroll, Council Member of the Society and Patrick Grealy, Council Member of the Society.

Gerry Ryan, IAPF; Jimmy Joyce, Past President of the Society and Chris Daykin, UK Government Actuary.

President's Biennial Dinner continued...

I have been very pleased during my term of office with the open and frank relationship between the Society and the Pensions Board and the Financial Services Regulatory Authority. We have had to deal with some difficult issues during this period, but I believe there has been tremendous goodwill on both sides and a real desire to find solutions that will genuinely serve the public interest.

I think all of us here are aware that we face a crisis in pension funding, because of the burgeoning real cost of providing pensions against the background of increasing longevity and diminishing investment returns. We are conscious of the deterioration in the solvency of pension funds during the 2000-2003 bear market in equities. However, we may not be as conscious that the solvency position of most pension funds continued to deteriorate during 2004, despite the relatively strong return on assets. The fact of the matter is that the liabilities of most funds grew at an even faster rate in 2004 and the asset-liability deficit widened even further.

It will be challenging for sponsors of pension schemes who restructured their funding just twelve months ago to have to once again dig deep and face a potential further increase in contributions.

There is no easy solution to this problem. We as actuaries have an obligation to guide sponsors and trustees in relation to funding rates and I believe we also have an obligation to advise them of the inherent uncertainty in the process. Sponsors and trustees who employ actuaries like to get specific answers, but I am afraid that in this area there can be no specific right answer.

The Pensions Board has been grappling with the dilemma of ensuring the continued existence of defined benefit schemes while also ensuring their on-going solvency. The Board undertook an important consultation on the funding standard last year and I understand that we are very close to an outcome in the Social Welfare Bill which is imminent. I believe the Society made a significant and hopefully useful contribution to that consultation. I fully appreciate the difficulties faced by the Board and by the Department of Social and Family Affairs in determining where to set the bar in relation to scheme solvency. Too strong a test will force sponsors to exit from the provision of these benefits while too weak a test will inevitably lead to scheme failures and to scheme members losing hard-earned benefits.

We all learned early in our actuarial training that if you fund for a long-term benefit, you cannot guarantee the intermediate values and this is a real conundrum of pension scheme funding and solvency. Furthermore, the fact that a scheme meets a particular funding standard does not mean that the benefit expectations of members are covered. The Society believes that transparency and openness is vital around whatever standard emerges and that there should be a clear understanding by all concerned of what it actually means.

A related issue is the allocation of scheme assets in the unfortunate event of a failure. The current law prioritises these assets for members already retired.

In the event of a failure, a very high proportion of scheme assets could be required to purchase these benefits for retired members and currently employed scheme members, even those within a year of retirement, could be left with little or nothing. This is not a satisfactory position and I believe it is not well understood by members of pension schemes. In our response to the consultation, we have made certain proposals in this area, particularly around the illustration of the true position for different classes of scheme member.

The vast increase in the real cost of providing retirement benefits has been difficult for defined benefit schemes, but the very same forces are impacting in a particularly invidious way on the increasing numbers of people who have to make provision for their own pensions. More than half the members of occupational pension schemes and the vast majority of new entrants to the employment market are now in this defined contribution class. The inadequacy of defined contribution retirement benefits will be the pensions crisis of the future, and that future is not very distant. Most of these members of do-it-yourself schemes are contributing far too little to have any hope of meaningful retirement incomes. I believe we as actuaries, regulators and public policy makers have a real responsibility to try to alleviate this future crisis.

During my two-year term as president, the Financial Services Regulatory Authority has been going through a period of rapid development. The Society has always had an excellent working relationship with the prudential supervision side of IFSRA and the former DETE, and I am delighted to see that good relationship also flourish with IFSRA's consumer division. I believe IFSRA recognises that actuaries can make a contribution to their consumer mission and we have been very happy to have the access and to be able to put across our point of view.

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President's Biennial Dinner continued...

While most of us work for commercial organisations in our day jobs; as a professional body, our orientation is unambiguously towards the public interest and working in tandem with IFSRA's consumer division is a very effective way of demonstrating this.

Two years ago, at the time of our last president's dinner, just one of our members, Jimmy Joyce, worked in the regulatory field. I am delighted that that representation has grown by 200% in the intervening period and three of our members who are here tonight now work in the regulatory business. I am sure the regulators are getting good value from their actuaries and I hope to see even greater numbers of our members working in this area.

Many professions are represented here tonight and I'm sure all of us recognise the challenges we face in maintaining public confidence.

The actuarial profession in the UK has been going through a period of intense scrutiny during the current review of the profession by Sir Derek Morris. Sir Derek has produced an interim report and indeed this has been largely welcomed by the UK profession. Most of the Morris recommendations are completely consistent with the direction the profession is taking and indeed this direction was very clearly set out by Harvie Brown in his presidential address some months before the interim Morris review was published.

Some of the Morris interim recommendations raise questions for the actuarial profession in Ireland and may lead to changes in our own structures. Likewise, there are developments in the governance and structures of actuarial bodies in other countries, and indeed in other professions both in Ireland and elsewhere.

Our Council is developing a strategy in relation to such changes and we will be consulting both inside and outside the profession over the course of this year.

It has been a great honour for me to represent the Society, as President, but it would not have been possible for me to do so without the tremendous support I have received from Colm Fagan, our Vice-President, from the other officers and from everyone on Council, particularly those who are carrying the burden of chairing our practice area committees. I would also like to sincerely thank Aisling Kennedy, our Director of Professional Affairs, and Mary Butler, Director of Member Services. Without your great commitment and constant efforts, this Society would be a pale shadow of itself.

Pat then introduced our guest speaker, Senator Joe O'Toole to speak on behalf of the guests.

Implications for the Society following the Morris Review

At the members' consultation meeting held on 27 January last, the President, Pat Healy, stated that a working group would be set up to consider the implications of the Morris Review for the Society of Actuaries in Ireland. Council has now appointed Philip Shier to chair this working group.

Philip is anxious to involve a cross-section of members from all of the practice areas, both recently qualified and senior members, on the working group. If you are interested in becoming involved, please let the Society know.

Members will be kept updated on progress and consultation meetings will be held over the coming months.

Presentation at UCD's Dean's List Dinner

Congratulations to Emer Casey, Watson Wyatt, on being awarded the Society's Prize for 2004.

Professor Philip Boland, Dept of Statistics; Pat Healy, President of the Society of Actuaries in Ireland & Emer Casey, Winner of the Society's Prize for Best Student in BAFS Degree 2004.

Evening Meeting Review: Social and Economic Benefits of Irish Inflation-Linked Government Bonds

Introduction

A diverse group gathered at the Alexander Hotel on the 8th February to hear Colm Fitzgerald deliver his paper on inflation-linked bonds. As well as representations from the life and pensions industry, there was also good representation from investment managers, investment banks and the NTMA.

The President, Pat Healy opened the meeting by welcoming guests. Pat remarked that it was good to see, not only a paper written by an Irish actuary, but one written by someone so recently qualified.

Paper

Colm then proceeded to give an overview of the paper.

From the public interest point of view, the main reasons in favour of issuing inflation-linked bonds were identified as follows:

- Lower long term servicing costs and risk diversification – owing to a solid demand from institutional investors
- Reduction in the cost of private sector pension provision
- Social and economic improvements

Of the reasons against issuing such bonds, the most important related to the potential adverse impact on the liquidity of government paper. Government bond issuance is currently concentrated in a handful of liquid issues. Any material issue of inflation-linked bonds might detract from that liquidity.

It was noted that all of UK, Sweden, US, France and Italy have targets for inflation-linked issuance as a percentage of total government debt outstanding.

Colm concluded by noting that the experience of all governments who have tapped this market has been favourable.

Discussion

Philip Shier opened the discussion by questioning whether modest issuance would make any difference given the huge potential demand. He also suggested that this course of action could put significant upward pressure on court award settlements. These settlements are discounted cashflows based on a 3% real rate – the current "market" real rate is probably closer to 2%.

Ronan O'Connor (National Pension Reserve Fund) argued that one of the main arguments against inflation-linked bonds related to "poor husbandry" – in other words, typical inflation-linked bonds have the effect of deferring repayment of debt with low initial coupons and larger capital repayments at maturity. In addition, Ronan pointed out that if Irish inflation continues at a premium to Eurozone inflation, this will result in higher debt servicing costs for issuers.

In response to the first point Pat Ryan suggested that the bonds could be issued in an amortising structure if that were a concern. In relation to the second, it is impossible to call whether Irish inflation will average above or below that of the Eurozone. With 30 year Eurozone fixed interest bonds yielding 3.7% and long term Eurozone inflation targeted to be 2%, the prevailing Eurozone real yield is approximately 1.7%. It was widely felt that demand for Irish inflation-linked bonds might drive their real yield significantly lower than this.

A representative from the NTMA pointed out that current funding conditions for the Irish government are very favourable. Irish paper now trades at a premium to German government paper. He contended that it may not necessarily be right to provide a supply of particular bonds simply because there is a demand.

Michael Moriarty questioned whether allocation of assets to inflation-linked bonds would be financed from the sale of equities or conventional bonds. The general view seemed to be that equity weightings would move lower, but there would also be some leakage from fixed interest bonds.

Liam Quigley pointed out that while the availability of inflation-linked bonds would be of great advantage to the pensions industry there was also a down-side. Lower expected investment return assumptions due to lower equity weightings would give rise to increases in the ongoing contribution rate. Liam questioned whether it would be possible to implement a liability hedge (through inflation swaps) without having an impact on the investment portfolio.

Currently, however, there is no developed market in Irish inflation-linked swaps and hence such a strategy would have to be implemented using Eurozone swaps as a proxy. The existence of Irish inflation-linked bonds would serve to create liquidity in an Irish inflation-linked swap market.

Ivor O'Shea outlined that Irish Life find it difficult to find assets to match their inflation-linked annuity business and hence their pricing assumptions must reflect this. Currently sales of inflation-linked annuities generally occur when a defined benefit scheme actually terminates and hence sales volumes from year to year can vary greatly. Ivor also suggested that social pressure would eventually force a rethink on this issue as Irish pension funds gradually mature and the demand for inflation-linked assets grows even further.

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Evening Meeting Review continued...

Michael Madden pointed out that the existence of Irish inflation-linked bonds trading at lower real rates of return could put upward pressure on the MVAs used in the minimum funding standard calculations hence pushing liabilities higher and putting further pressure on fund solvency.

Robert Wolfe questioned whether the CPI methodology was robust and consistent with other Eurozone measures. The panel felt that it was reasonable.

Closing

Closing the meeting Pat Healy remarked that 10 years ago it took until St. Patrick's Day for tax revenue to pay the annual servicing cost of the national debt. Now it is paid by noon on the 14th January. This highlights the fact that currently the national debt is no longer as serious a political issue as it once was and hence it is difficult to bring the inflation-linked bond issue into the spotlight.

Colm's paper is available on the Society's website.

Brian Griffin

Letter to the Editor

In an article in the November newsletter Shane Whelan argued that there could not be a country of old men; that pension arrangements that made no actuarial sense would somehow come right; perhaps that some invisible hand would make everything "alright on the night". Shane doesn't fully explain why there cannot be countries of old men (and presumably even more old women) but argues for forces of immigration to make good invoking "self-interest".

The Pyramid Pension Scheme

We know that population balances are changing, quite dramatically in some cases, but there is no reason to suppose that there are self-balancing mechanisms.

In fact is it not more reasonable to suppose that a larger grey lobby would push its interests forward? This appears to be starting to happen in the United Kingdom. Promoting the interests of the older must be at the expense of the younger and that could discourage immigration and child rearing. Far from being self-balancing this may be an unstable structure.

Eventually something might, I guess, restore the balance but if population structures are unstable then there may need to be a great deal of imbalance leading to possible wild-swings. The ultimate cost of rebalancing our age-profile may be more than we want to pay.

Our recent history has led us to overstate the probability of indefinite progress and continual growth. From this perspective perhaps a mortgage on the future might be affordable if we get lucky but this does bank on a rose tinted tomorrow. A longer view shows that history is not a continual progression onwards and upwards, but success depends on the choices and actions of our society. Herodotus, the early historian of Ancient Greece noted.

"For the cities which were formerly great, have most of them become insignificant; and such as are at present powerful, were weak in the olden time" [1]

But then what if our choices and actions are themselves influenced by our demography? Is it not likely that our time frames and the values we have are themselves affected by our collective age?
Tolkien describes such a situation in Minas Tirith rather eloquently

"Kings...counted old names in the rolls of their descent dearer than the names of sons. Childless lords sat in aged halls musing on heraldry; in secret chambers withered men compounded strong elixirs, or in high cold towers asked questions of the stars" [2]

Is this not already happening to us? The sudden growth of cosmetic surgery and programs exhorting us to look ten years younger, are these not strong elixirs? So our ageing society may desire that which makes us older yet. Like Scarlet O'Hara refusing to mate and breed for fearing to lose her figure, forgetting that her figure was there to help her win a mate, in order to bear children. We devise a pyramid pension scheme based on our children and then neglect to have the children.

To summarise, if it is actuarially unsound then, it is unsound.

Decision Making

There is a stronger reason to doubt our ability to deal with this problem. People choose to believe what it suits them to believe. The hysteria that greeted our statement that we would have to work longer demonstrates the problem. Let us "compare and contrast" two examples from antiquity.

The first (and optimistic) is that of Joseph and the Pharaoh's dreams. The Pharaoh has dreams in which he sees inter alia

" there came up out of the river seven well favoured kine and fatfleshed; and they fed in a meadow. And behold, seven other kine came up after them out of the river; ill favoured and leanfleshed; and stood by the other kine upon the brink of the river. And the ill favoured and lean fleshed did eat up the seven well favoured and fat kine" [3]

He has other such portents, which only Joseph is able to interpret; their meaning is that there will be seven years of plenty followed by seven of famine. Joseph advises the Pharaoh to take the plenty from the first period and store it in granaries so when the famine comes the people of Egypt do not starve.

The second (and pessimistic) is that of Cassandra, daughter of Troy. She is first blessed by Apollo with the gift of prophesy; then is cursed that no one will believe her. She warns of Troy's fall but cannot avert it. Finally brought as captive to Argos, she sees her own death alongside of that of Agamemnon but cannot avoid it.

"And now Apollo
Who gave me this one painful sparkle
Of his own huge blaze of foreknowledge
Trips me up, in a twist of history
Into this abattoir, sends me sprawling
To vomit his gift
Here on these bloody floors-
My last gasp of the Incredible
This is where disbelief will finally desert me
No longer a mocked seer
Pitied at my father's hearth
But a carcase chopped on a block" [4]

It would be nice to think that the Bible's story is more apposite to our case, that we will take action in time but our own actuarial track record is not good. The fatfleshed kine of the equity bull markets were eaten up by the leanfleshed of more recent years and had we stored against such in our granaries? No; the pension funds had been taking contribution holidays.

I have a mental image of what would have happened in Ancient Egypt had the decision over what to do been left to the market place rather than the wise Pharaoh. Perhaps the surpluses would be ascribed to the new economy of sacrifices to Horus (rather than the old economy Isis). The cautious scribes (or actuaries) advice jettisoned for the more pleasant advice of those who argue that unsound practices are really affordable. Lest I be suspected of advocating dictatorship, it should be noted that markets will at least correct one day, tyrants will destroy all rather than be proved wrong.

Yet the advice offered by Cassandra was really not that unpleasant. All Agamemnon had to do was understand that after ten years away and after sacrificing their own daughter, his wife might not be so loving. All he had to do was to stay out of the bathhouse!

So it is with this. Is it really so unreasonable to say that if we live longer that some of that extra longevity will be spent on work instead of all on retirement. Taking into account longer periods spent in education we are not suggesting much of a change from the working lifetimes of our grandparents.

However the issue is not what will happen but how the impact of the changes that do come are shared. If we insist on having pensions paid to too many people for too long then they will be too small. If that happens then I suspect it will be the disadvantaged socio-economic classes who suffer most. Why should retirement age be independent of the age we start work?

Maybe we will be able to afford long retirements maybe we won't. What we need is flexibility to adjust and pinning ourselves to inflexible systems like fixed retirement ages is not sensible whether it pleases the Greek chorus of the press or not.

Crisis? What crisis?

Lastly perhaps we should stop calling it a longevity problem. It is only a problem because of inflexible systems. Long life is a blessing greatly to be desired

"May those who guide me on the good path and my companions all have long lives" [5]

Or as any good Vulcan would say

"Live long and prosper" [6]

Tony Jeffery

1 Herodotus "The Histories" I 5 Everyman Library.1997 Translation George Rawlinson
2 Tolkien ; "The Two Towers" from the chapter "The Window on the West"
3 Genesis Chapter 41 verses 2 to 4 King James Revised Version
4 Aeschylus The Oresteia faber and faber 1999, Translation Ted Hughes
5 Geshe Kelsang Gyatso From "Prayer of the Stages of the Path" New Meditation Handbook Tharpa Publications 2003
6 Vulcan Greeting as per Star Trek, the response is prosperity and long life

Investment Seminar: Not Enough

Seminar Speakers: Julia Casals, Carillon Investment Advisors; Evelyn Ryder, Hewitt & Becketts; Kent Osband, Drawbridge Global Macro Hedge Fund; John Caslin, Alder Capital; Pat Healy, President, Society of Actuaries in Ireland and Robert Hayes, Merrill Lynch Investment Managers.

New practices in relation to pension fund investment were the focus of the investment seminar held on Thursday morning 17th February 2005, organised jointly by the IAPF and the SAI.

Mr. Pat Healy, President of the SAI, described the current situation for many schemes, citing rapid improvements in longevity and falling bond yields, both liability issues, as the main culprits for the continuing deterioration in pension scheme funding levels - despite the favourable asset returns of 2004.

Some of the deterioration could have been avoided if appropriately matching assets had been held to hedge against changes in liability levels. However, no assets exist to hedge longevity risk. Nor are there any index-linked bonds available to match liabilities that are driven by Irish price inflation. Mr. Healy expressed disappointment over the reluctance of the NTMA to consult with "customers" for inflation-linked bonds.

He also noted that the Society's recent comments on increasing retirement ages were not enthusiastically received. The challenge of ensuring adequacy of retirement provision for future pensioners grows ever more daunting.

A Review of Current Trends in Pension Scheme Investment Policy in Ireland **– Evelyn Ryder.**
Ms. Ryder said that trustees of defined contribution schemes were spending more and more money on educating members with regard to investment decisions. Some 75% of contributions were going into default strategies. There is a growing interest in lifestyle and dynamic investment strategies, probably reflecting the ageing of the average defined contribution plan member. In order to make choices simpler for members, trustees often reduce the number of similar investment product options, instead offering only a "best in class" manager, while at the same time offering more genuinely different investment products.

For trustees of most defined benefit pension schemes, management of risks is now the main priority – in particular short-term solvency risks. Clear investment objectives are being formulated and set out in Statements of Investment Principles, focusing on how the investment policy relates to the funding plan and what risks are involved. This has led to a careful examination of what precisely trustees want their investment managers to achieve.

The traditional focus on the success of investment managers at outperforming a benchmark, related to various indices or league tables, has perhaps diverted attention away from examining the appropriateness of the asset allocation of the fund given the changing liability profile of the scheme. Thus, schemes' assets and liabilities have become divorced

Assets to Meet Pension Liabilities

over time. The current funding difficulties experienced by schemes have brought this aspect of investment policy into sharp focus.

A typical investment objective might be to outperform the increase in the scheme's liabilities by 2% per annum subject to a one-in-twenty chance that the current deficit rises to €0.5 million over the next twelve months. So how can an appropriate portfolio be constructed that can meet such an objective? Asset classes can be used to either:

a) provide a match for the liabilities;
b) achieve a higher return;
c) and/or provide diversification.

Having decided which asset classes fall into each of these three categories an appropriate portfolio can be constructed.

Ms. Ryder gave examples of different portfolios. One example considered was that assets were distributed as follows: 60% bonds, 25% equities, 10% property and 5% absolute return. The management of equities would be active and unconstrained where managers are told to hold their best stocks only and not to hold stocks which are held only to reduce tracking error. She believes that there is evidence that active management adds value to portfolios. The property and absolute return benchmarks would be CPI + 6% and Cash + 5% respectively. The bonds would be used to match liabilities by duration and inflation linkage to the extent where the trustees are comfortable with the overall risk of the portfolio.

How to Mismanage Portfolio Risk: A Guide for the Fiducially Challenged – **Kent Osband.**
Mr. Osband highlighted areas where current attitudes and investment practices by trustees were counter to the best interests of the fund. The first is the belief that, in the long run, risk doesn't matter. The risk of a big fall in the value of a portfolio increases with time. In fact, losing streaks were very common in the US stock market and so-called 'unusual crises' were more frequent than we might think.

The second bad habit is that of focusing on minimising tracking error. Echoing Ms. Ryder's earlier point that this ignores the liability profile of the scheme and does not encourage truly active management, he said that conventional index benchmarks contain most of the risk and reward in an investment portfolio. Clients may prefer to allocate more risk/reward to their active managers' abilities.

The third is a tendency to hold too many assets in a portfolio in an attempt to diversify risk. Mr. Osband called this 'Diworsification' because the benefits in risk reduction are quickly outweighed by the costs of holding inferior assets and straining managerial attention. The avoidance of shorts and options denies the manager effective tools to cut correlation which arises through dependence on a common index. Once managers have diversified across a relative handful of best investment ideas, further improvements in the reward/risk profile of a fund must be achieved by cutting correlation.

In all industries, linking executive pay to long-term performance has tended to greatly enhance productivity. However, most fund managers are paid according to the amount of funds under management – not according to performance. Trustees should pay according to risk-adjusted performance. The difficulty in assessing whether a manager's good performance was due to luck or skill has led to a situation where trustees are slow to fire a poorly performing manager. Mr. Osband urged trustees to promote and demote managers quickly.

Creating Investment Portfolios Based on Targeted Levels of Risk - **Julia Casals.**
Ms. Casals updated the conference on hedge funds. The amount of funds invested in hedge funds as well as the numbers of hedge funds continues to grow dramatically. Hedge funds continue to attract the brightest and best in the industry.

Style drift can occur when a specific strategy begins to yield diminishing returns and managers seek other ways to increase returns. However, styles are also evolving as more sophisticated techniques are developed. Either way, it is important that trustees are comfortable with the tactics employed by their hedge fund managers.

Published benchmarks are often useless in evaluating a manager's performance due to survivorship bias, lack of construction rules and the fact that good managers don't feel any need to continue reporting returns. Multiple customised benchmarks which change with market conditions are more likely to be of use to clients.

Traditional performance measures need to be adapted for hedge funds to take into account areas where they may differ from long-only strategies. The Sharpe-ratio, a common measure of reward to risk, is blind to leverage, for example.

Research shows that firms with greater lock-up controls generally provide greater consistent returns. Not having lock-ups doesn't necessarily offer more protection.

continued

Investment Seminar continued...

Many managers believe that increasing assets under management negatively impacts fund performance but size can have both advantages and disadvantages.

Manager skill is more important for hedge funds than for traditional long-only funds. Many hedge funds fail because of poor business skills rather than poor investment expertise. The rush for a "piece of the action" may mean that investors may make poor decisions regarding manager selection and may not have a clear grasp of what role the hedge fund is to play in their portfolio.

Practical Implications and Implementation of a Liability Led Approach to Investment - **Robert Hayes.**

Mr. Hayes spoke further about the liability led investing which Ms. Ryder and Mr. Osband had talked about earlier. Viewing the pension fund's liabilities as a series of cash flows, the true investment objective of the fund is to achieve a return in excess of the return on the portfolio of bonds that best matches these cash flows. He described the use of swaps to help manage interest rate risk.

New approaches being followed by pension funds currently include:

- Target Return Investing: similar to hedge funds in seeking a positive return but with a greater emphasis on capping the overall risk of the investment strategy;
- New Equity Approaches: the unconstrained active management promoted earlier; and
- Portable Alpha: the combination of investment returns from market returns and manager skill in the most efficient manner possible. Three basic "alpha engines" were listed – "long only asset classes", e.g. Japanese equities; "multiple long-only classes", i.e. diversified alpha stripped from traditional products; and, lastly, "cash plus" products such as hedge funds and funds of funds. One problem with the portable alpha is that the best alpha markets, e.g. emerging markets and small cap stocks, are the most difficult to port.

Questions and Answers

A question and answer session took place after the speakers' presentations. Here are some of the issues raised within that question and answer time:

- The Irish market comprises smaller schemes than those in the US and UK and such strategies would be relatively expensive for them to adopt. These strategies are available now on a pooled basis which makes them more accessible to smaller pension funds.

- The typical fee structure of hedge funds was discussed. Better hedge fund managers are commanding higher fees. The value of a marginal return of 1% when fund returns were in single digits was contrasted with that when fund returns are double digit. The panellists predicted greater flexibility on fees in the future.

- The use of a fee structure which only rewards positive returns was not promoted as it may encourage greater risks to be taken by managers to achieve breakeven, once returns entered negative territory. Also the fund may be abandoned by the better managers once it appeared that fees were unlikely to be earned by the manager on that fund.

- The Irish public's attitude to pension provision was discussed – in particular the preference for property rather than pension products. Panellists mentioned the concentration of risk in a single property, the difference in tax treatment between investment in property and pensions, the loss of confidence in the pensions sector in the UK and the use of borrowing for property investment as a simple method of gearing up the portfolios. Why pension provision had to be tied to the company for whom you work was questioned while the conference was reminded of the need to ensure that people had the required competence to plan for their retirement.

- The panellists were asked whether the opportunities promised by hedge funds were exhausted at this point in time. While it was acknowledged that the competition was now greater in traditional hedge fund areas, new opportunities were being identified and exploited and this is expected to continue. The best managers would continue to do well but the difficulty for investors would be how to identify the best managers.

- The defined contribution market is still seen as immature and access for members of such schemes to these sophisticated investment strategies was not envisaged in the immediate future. The responsibility of trustees to give investment advice was discussed and it was noted that companies were realising the high costs involved in this.

The presentations from the seminar are available on the Society's website.

Johnny Cashman

Actuaries Working in Regulation

Actuarial representation in the regulatory field has grown by 200% in the last year. Where previously only one actuary, Jimmy Joyce, worked in this area there are now three members involved - Jimmy Joyce, Mike Frazer and Brendan Kennedy. Below we have a brief profile of the two new additions to the field.

Brendan Kennedy

What is your role in the Pensions Board?

I am actuarial adviser to the Board. This means that I am an in-house actuarial resource for the Board where it previously might have used external consultants. As a result, I am involved in many aspects of the Board's work, both on the regulatory and policy sides and have an input into a wide range of issues. Because I am the Board's first actuary, the role is still developing and evolving.

Tell us about your career to date.

Like many Irish actuaries, I joined Irish Life straight from school, in my case in 1977. I qualified there in 1985 and worked in various actuarial departments. I joined Howard Johnson in 1994 and worked in pensions and benefits consulting. In 1998, I joined Canada Life, and worked on pensions and PRSAs. Finally, in 2004 I joined the Pensions Board, initially on a consultancy contract and then permanently from October 2004.

How do you see your role developing within the Board?

Because the role is new, the Board is still getting used to having an actuary to hand, and new issues are constantly coming up. Looking forward, the role will develop as the role of the Board develops. The recent E.U. Directive will mean changes in the Board's regulatory activities. Policy issues are by their nature changing all the time, and it is part of my job to contribute on those issues as the Board considers them.

What constraints do you envisage in the development of your role?

The Irish pensions world is a very small one, and everyone knows everyone else. Working for the supervisory authority means that you have to avoid potential conflicts – for instance I resigned from Council when I joined the Board - and not be influenced by the fact that you know many of the people involved in particular cases. However, everyone with whom I deal is fully aware of these constraints, and they have not been a problem in practice.

Mike Frazer

What is your role in IFSRA?

I'm based alongside Jimmy Joyce on the Prudential Supervision side of IFSRA, with specific responsibility for supervising the actuarial aspects of Irish-regulated life insurers.

The role involves:

- providing actuarial advice to my supervisory colleagues;
- liaising with Appointed Actuaries and companies' senior management as part of ongoing supervision and enforcement of regulations, as well as discussing particular issues of mutual interest that arise,
- analysis and review of statutory and other documentation with significant actuarial aspects;
- contributing to the development of future regulation, both domestic and EU level, with particular emphasis on the Solvency II project.

Tell us about your career to date.

I joined Irish Life as an actuarial trainee from school in 1985. I worked in pension scheme valuations, development and marketing over the next 6 years, passing half of the exams. Over the following years, I diverted into studying English literature at Trinity, and travelled for a spell in the Far East, funding myself by working contracts in actuarial roles for Canada Life and Lifetime. I returned to permanent employment with Eagle Star Life in 1995, initially in the I.T. department, then in the Corporate Actuarial department after resuming the actuarial exams in 2000. I qualified in April 2004, and joined IFSRA as life actuary in November last.

How do you see your role developing within IFSRA?

I think future legislation and regulations are likely to increase the scale and importance of the actuarial contribution to supervisory authorities, especially once the anticipated risk-based system is in place. I also think, however, that it's vital to maintain continuity with the crucial role fulfiled so successfully by Jimmy up to now. I would also hope that I can play a significant part in the ongoing relationship between the regulator, individual actuaries in statutory roles and the Society in the future.

What constraints do you envisage in the development of your role?

Time! There aren't enough hours in the day to cover the breadth of topics involved (and this won't get any better for me given that my wife, Tara, is expecting twins in the summer!). More pertinently, there aren't enough actuaries in the regulator, and please forgive the marketing effort if I point out that IFSRA is always on the lookout for suitably qualified skilled professionals.

Annual Ball

Saturday 14 May 2005

Four Seasons Hotel

Next Steps:

- Diary this date
- Organise your table

  > a table from your company

  > a table of members who qualified about the same time – need help with contacting these old (or young!) friends – just call the Society

  > A table of members who meet up annually at one of the Society golf outings

  > or, come along and the Society will organise a table for you

❖ A fun but testing quiz will run throughout the night

❖There will be an entertaining after dinner speaker and more!

The social committee is continuing to come up with more ideas to make the 2005 Ball a great social event for all members.

The 2005 Ball is open to ALL members and their partners.

Golf Diary Dates

- Piers Segrave-Daly Matchplay Competition commences in April. Deadline for entries - Thursday 31st March. If you haven't entered, it is worth checking with the Society if the draw has taken place.
- May week-end 36 hole competition – Friday 20th & Saturday 21st May at Tramore and Faithlegg Golf Clubs – places limited to 24. If you haven't booked, contact the Society immediately.
- Captain's Day – Tuesday 16th August – South County Golf Club. Diary this date – more details nearer the time.

The Society's AGM

AGM papers have been forwarded to all Fellow Members. All Fellow Members of the Society are eligible to go forward for election to Council. There are four vacancies on the 2005-2006 Council and nominations need to arrive at the Society by 5.00 p.m. Tuesday 12th April 2005. Recently qualified members are particularly encouraged to seek nomination. Newly elected Council Members will not necessarily be required to chair a Society committee.

Newsletter Team

Frances Kehoe (editor) and Mary Butler would like to thank Gareth McQuillan for his tremendous contribution to the editorial team during the past year or so. Gareth has now taken on the role of Chairman of the Society's PR and Communications sub-committee and we wish him well in his new role. Frances and Mary extend a warm welcome to Ciara Regan who has now joined the editorial team.

Business Awareness Module

The following email was sent to Student Members in February: The Society has received some queries in relation to the new UK practice module within the Institute and Faculty examination structure. We would like to bring the following information to the attention of Irish students:

- For students who intend to work as actuaries in Ireland after qualifying, there is no requirement to do a UK practice module to obtain Fellowship of the UK Profession and, consequently, Fellowship of the Society of Actuaries in Ireland.
- At the moment, there is no Irish equivalent to the UK practice modules but the Society may consider the introduction of equivalent Irish practice modules in due course.
- Students may wish to consider whether they might wish to work in the UK at some future point. While we understand that it would be possible to take a UK practice module at that time, it might be easier to do so whilst still in studying "mode".

On the Move

Fellow Members	**Tony Jeffery** has joined **Hibernian Life & Pensions** from B&W Deloitte
Students	**Mary Hall** has moved from Hewitt & Becketts to **Standard Life**

Society of Actuaries in Ireland

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