IACA CONFERENCE, HONG KONG 1994

Mark Weaver, New Zealand

The Profession

The Society has continued to develop the work of its sub-committees.

The Society's Life Insurance Sub-Committee headed by Charlie Cahn has had a busy year. The Committee has participated in a working party established by the Department of Justice on introducing an Appointed Actuaries regime. It has also worked with the Society of Accountants on financial reporting standards for life companies. It is expected this will see the introduction of a margin on services regime. This work of the committee has led to the formulation of two new standards in draft form.

A Sub-Committee was formed to develop the Society's view on Human Rights legislation. The principal concern of the profession was the issue of uni-sex pricing of insurance policies. A second issue was the impact on the ability of sponsors of superannuation schemes to target their benefits to employees with differing needs. While the original Bill was amended to permit the continuation of gender pricing, the legislation has caused major problems for superannuation schemes in their ability to target benefits, for example, to members' spouses. How this will be resolved is uncertain, particularly given a Human Right Commission which is actively pushing its position of wider social equity.

The Pensions Sub-Committee has been busy with two issues. Firstly working with the Society of Accountants in accounting standards for superannuation schemes and secondly in introducing guidelines for actuarial valuations of defined benefit schemes.

The Sub-Committee charged with investigating New Zealand mortality has been re-organised and the expectation is that the committee will now produce updated statistics.

A guidance note on how to value a member's entitlement to superannuation benefits was produced in draft form, and should be finalised shortly. This is an important area which affects the credibility of the profession to both the wider public, and the judiciary.

The Victoria University course is now in its fifth year, but there may be problems with funding it in the future. The problem is that the demand for new students has dropped significantly and interest from sponsors has dropped.

The profession is looking forward to its biennial conference later in the year with the expectation that there will be a good number of overseas attendees.

The current numbers in the Society are :-

Fellows	:	109
Retired	:	4
Students	:	76
Others	:	22
		211

Economic Overview

New Zealand's rates of inflation and wage growth have continued to drop as shown by the table below.

Year Ending 31 March	CPI Increase	Wage Growth
1989	4.0	9.3
1990	7.0	6.1
1991	4.5	5.5
1992	0.8	3.9
1993	1.0	2.5
1994	1.3	0.6

The National Average Ordinary Time Wage as at November 1993 is $29,017 per year.

Interest rates on term deposits have continued to drop and are presently running between 6% and 7% with short term cash deposits at 4%. The rate on variable housing mortgages is 7.9% per annum. The yield on five year Government stock has dropped to about 6.5% compared to 8.5% in 1991. The sharemarket index is around 2100 which is around 25% up on one year ago. The market has been very volatile in the last 6 months and in February was around 2,450. The commercial property market is beginning to move, with rents firming and investors looking positively at this sector.

The New Zealand dollar presently buys US$0.57, AUS$0.80, £0.38, Cdn$0.79 and DM 0.95.

Political Review

The National Party (a conservative party) elected in October 1990, continued the major economic restructuring process initiated by the previous Labour Government. A major reform was the enactment of the Employment Contracts Act which freed up the labour market and allowed employers great scope to re-negotiate terms and conditions with their employees. This, together with the Reserve Bank Act which mandates the Central Bank to pursue an independent role in controlling inflation, are the keystones of the current economic prosperity emerging in New Zealand.

The country is now looking at a new electoral system following a referendum in November 1993 which introduced a system of proportional representation. At the same time as the referendum the National Party was re-elected but with a greatly reduced and seemingly fragile majority. The period since the election has been noticeable for the lack of any major new legislation, with the country poised between those who wish to see the major changes with the economy maintained while the socialist parties wishing to see increased spending to make quick in-roads into the high level of unemployment, currently around 10%.

Fiscal Policy

The Government is headed for the first surplus of income over expenditure for more than 20 years. The differing voices call for this to be used to reduce Government debt of around $50 billion, or spent on social services to assist those people who have suffered major disruptions in their lives, caused partly by the economic reforms. The current Finance Minister, who once was a major figure in the Government in the late 1970's and early 1980's which expanded the Government's expenditure greatly, is now committed to reducing the Government debt.

Income tax rates remain at a maximum level of 33% for income in excess of $30,875, but there is a consumption tax of 12.5%. The Accident Compensation legislation was amended with effect from July 1993, to move the scheme more to an insurance style scheme with limited cover and premiums more related to the risks insured. Employees now share the cost with employers. The scheme is considered by many to be unsatisfactory and a major review is being undertaken.

Superannuation

The reforms on employer based superannuation schemes in the late 1980's removed all the previous tax incentives. This was followed in 1991 by an ill considered attempt by the Government to severely reduce the universality of the State benefits to the retired population.

These attempts were defeated by the Government's own backbench Members of Parliament.

In an attempt to widen the debate the Government established a Task Force to review the whole question of the private pension for retirement. The Task Force was well managed and completed a wide review which involved large sections of the population and many groups with an interest in superannuation. It's final report followed on two initial reports and considered the merits of three alternative regimes, namely, tax-favoured savings, a compulsory savings regime and a continuation of the existing tax neutral voluntary regime. The first two alternatives included imaginative proposals, the former based on limited incentives targeted at the lower paid, with the latter based on a Chilean style approach.

The Task Force chose to make no changes to the existing regime, although it imaginatively looked forward and considered how the debate should be continued in the future. This led to the recommendation to establish a new office known as the Retirement Commissioner who would continually assess the retirement savings issue, promote education, and conduct a major review in 1997. The report concluded that if there was clear evidence in 1997 that the existing regime was failing to ensure the younger generations made proper retirement savings, then it would be difficult to reject the compulsory alternative.

The recommendations of the Task Force were accepted by both the Government and the two major Opposition parties and its intentions enacted in legislation. The next step, namely the appointment of a Retirement Commissioner, is expected shortly.

The sponsors and trustees of corporate superannuation schemes have had to deal with a series of legal cases which have questioned the accepted standards of conduct. The UEB case concerning surplus was joined by the Cullen case which strengthened the rights of existing scheme members and made amendments to schemes more difficult to achieve. To a large extent the position is now such that any major benefit revision requires 100% member consent.

Legislation was enacted to cover transfers between schemes and no compulsory transfers are permitted. The effect is such that any transfer now brings with it the right for a member to receive the alternative of a cash benefit. This has created legitimate problems for company mergers and takeovers.

Problems have continued with resolving disputes between scheme sponsors, trustees and members, and a "Pensions Ombudsman" scheme now looks certain.

The two major schemes for central and local government employees, which provided defined benefits, have been closed to new entrants. Both schemes now have major challenges before them in how to manage their existing liabilities successfully and reduce their financing requirements.

Life Insurance

Actuaries now play a major role in determining the tax liabilities of life offices. Tax is liable on investment income less expenses and on their underwriting profits.

The industry has major challenges ahead with important new players competing for the savings dollar. Competitors include both banks and new unit trust companies. The tax and regulatory regimes introduced in the late 1980's enabled these institutions to compete for superannuation savings without the need for a life insurance company license. The changes were also helped greatly by a shift in deposits from traditional bank term products to managed funds as interest rates fell. A whole new industry of financial advisors has grown up to challenge the historical role played by the life insurance agent.

This new retail funds management industry is moving the life insurance industry into the role of merely providing life risk products. Some companies are meeting this challenge better than others.

Health Care

New Zealand has joined the road of reforming the public health system by separating the roles of the providers from the purchasers. This has intensified the debate on what core services the system can reasonably provide, and what services does an individual have to purchase privately. While the reforms will produce efficiencies in the short term, the limit on overall expenditure will eventually heighten this core services debate. The debate has been subject to huge emotional issues and will continue to be a difficult but important area for the Government to manage.

Asset Consulting

Actuaries have expanded their expertise by assisting superannuation trustees in defining the objective and investment strategies appropriate to their own liabilities.

Other Areas

Besides expanding into health insurance and asset consulting, actuaries have also attempted to expand into general insurance. But to date, the role played by the Accident Compensation Corporation has limited the long tail business written by general insurance companies.

The profession has many challenges ahead of it, and it will require a major commitment from all its members if the Society is to achieve its potential in managing financial risks for institutions and individuals.