There has been no major legislation or other development affecting the work of Consulting Actuaries during the last two years, but there have been three official reports relating to pension schemes which may well affect future developments:

(i) The Report of the Committee To Review the Functioning of Financial Institutions (the Wilson Committee),

(ii) The report of the Inquiry into the Value of Pensions (the Scott Committee), and

(iii) The report of the Occupational Pensions Board on "Improved Protection for the Occupational Pension Rights and Expectations of Early Leavers".

The Association submitted evidence to all three bodies.

Association of Consulting Actuaries

The membership of the Association as at 1st February 1982 consisted of 160 Full Members and 53 Associate Members (i.e. actuaries employed by Full Members), compared with 143 and 43 respectively as at 1st February 1980.

The Society of Pension Consultants, which consists mainly of firms of pension consultants many of whom employ actuaries on their staff, is extending its membership to other professional firms advising in the pensions field. It would like to include firms of Consulting Actuaries in its membership but this has been resisted by members of the Association. The Association continues to co-operate with the Society of Pension Consultants, the National Association of Pension Funds, and the Life Offices Association in the Pension Schemes Joint Working Group to provide a united front in negotiations with Government on pension matters.

Members of the Association have continued to expand the range of services offered to their clients, often by the establishment of subsidiary companies for specific purposes, e.g. computing services, audio-visual aids, Pension Fund administration, and trusteeship.

Economic Background

The last two years have been a time of slightly reducing inflation (though still in double figures) and increasing unemployment. The removal of dividend restraint resulted in a jump in dividends on ordinary shares in respect of the 1979 trading year. However, profits have subsequently been depressed as a result of the recession, and there has been little further dividend growth.

Despite the recession, equity markets have been buoyant and prices rose by about 35% over the two years 1980/81. By contrast, prices of long-dated Government stocks fell by about 6%. The typical UK pension fund has achieved a total investment return of about 20% per annum over the two years.

Following the removal of Exchange controls at the end of 1979 there has been substantial investment in overseas securities (and overseas property by the larger funds).

There has been a substantial reduction in the membership of many pension schemes due to contraction of the work-force. This has been accompanied in some cases by the granting of additional benefits in those retiring early due to redundancy.

The Wilson Committee

The Report of the Committee to Review the Functioning of Financial Institutions was published in June 1980. The Report drew attention to the increasingly large sums under the control of institutional investors (especially pension funds and insurance companies) and the economic power which this represented. However the Committee on the whole was in favour of the continuation of the funded principle for pension provision.

The Committee recommended a Pension Scheme Act, analogous to the Companies Acts, to regulate the operations of pension schemes and to require disclosure of information to members of schemes. They also recommended that consideration should be given to a registry for pension schemes by means of which the public would have access to information.

The present Government has shelved this Report.

The Scott Inquiry

The Inquiry into the Value of Pensions published its report in February 1981. This Inquiry was set up principally to consider the relative value to be placed on the guaranteed full inflation-proofing of benefits under the Pensions (Increase) Acts for public service employees (Civil servants, local government employees, police, firemen, teachers, National Health Service employees and others) as compared with the limited and discretionary inflation-proofing generally provided in the private sector.

The Report went beyond the strict terms of reference of the Inquiry in advocating the extension of the practice of full inflation-proofing to the private sector. "It is a highly desirably social objective that the standard of living of those in retirement should be protected."

The Report also discussed the problems and possible methods of quantifying the value of the guarantee of inflation-proofing under the Pensions (Increase) Acts, and concluded that the deduction from pay, to allow for the difference in pension benefits as between the non-industrial Civil Service and certain "analogue" schemes drawn mainly from the private sector, should be between 3 and 8½ per cent. (The Government Actuary had recommended a figure of 3.8 per cent).

Rights of Early Leavers

There has been considerable press interest in the subject of the benefits provided by pension schemes to members leaving service before becoming entitled to an immediate pension, the main problem being the erosion by inflation of the real value of benefits which are fixed in money terms at the time of leaving service. This was the subject of a report published by the Occupational Pensions Board in June 1981.

The Report recommended legislation to require preserved benefits to be increased by 5% per annum during the period of deferment. It also recommended that schemes should treat the 5% as a minimum and strive to increase such benefits in line with inflation.

The Report proposed legislation to abolish "franking" in schemes which are contracted-out of the State earnings-related pension, i.e. the practice whereby the statutory increase in Guaranteed Minimum Pensions (which replace the State earnings-related pension) is set off against benefits (under the provisions of the occupational scheme) in excess of the GMP so that there may be no net increase in the total benefit.

It was suggested that the information given to members in relation to benefits on leaving service was generally inadequate. It is clear from press comment that there is very considerable confusion and misunderstanding on this subject in the minds not only of scheme members but even of financial journalists.

Much of the reaction to the Report from pensions experts has focussed on the cost implications, and in particular the "knock-on" effect of the claims of pensioners to a similar measure of inflation protection.

Indexed Bonds

The Wilson Committee, the Scott Inquiry and the Occupational Pensions Board in their respective reports all referred to the possibility of indexed securities as a means of enabling pension schemes to match their liabilities with assets which would provide protection from the effects of inflation.

The Government made two issues of index-linked bonds in 1981 under which the interest payments and redemption proceeds increase in line with the Retail Prices Index. The first issue of bonds, which have a coupon of 2% and are redeemable in 1996,

was offered for tender in March 1981. They were issued at par, giving a real yield of 2%. The second issue, again by tender with a coupon of 2% but maturing in 2006, was made in July 1981 at £86 per cent giving a real yield of about 3%.

A further issue, with a coupon of 2½% and maturing in 2011, is on offer at the time of writing.

Social Security

Employees' National Insurance contributions are to be increased by 1% of relevant earnings with effect from April 1982.

The terms on which schemes may contract-out of the State earnings-related pension arrangements are due to be reviewed with effect from 6th April 1983. The new terms will be announced early in 1982. This is likely to lead to a general review of Employers' decisions to contract in or out.

Changes in Pension Schemes

The widespread review of benefits which resulted from the introduction of the State earnings-related pension arrangements in 1978, led in many cases to substantial improvements in benefits. There has been little activity in the last two years in further improving the benefits of schemes. This is doubtless due also to the effects of the recession and the resulting need to stabilise or reduce funding rates. A priority for improvement when money has been available, either in the form of scheme surpluses or by way of additional contributions from the Employer, has been increases to pensions in course of payment to counteract the effect of inflation.

There has been a growth of interest in additional voluntary contribution arrangements, which are becoming much more flexible as to the range of benefits which a member can provide for himself.

There continues to be steady development in many of the matters mentioned in previous Reports, for example in member participation in scheme management, provision of information to scheme members, involvement of unions in negotiation and management of schemes. There has been a considerable extension of the computerisation of scheme records, and the use of the new facilities becoming available in this field.

The Occupational Pensions Board are currently investigating the matter of solvency of pension schemes, and their report is expected by the end of June 1982. This may have implications for the future development of schemes.

Equal Status for Men and Women

The difference in State retirement ages for men and women has inhibited Employers from introducing a common retirement age in occupational schemes. However, developments in the European Economic Community, and in particular the ruling of the European Court of Justice in the case of Worringham and Humphreys vs Lloyds Bank, have been noted with interest.

It may well be that European legislation will force the UK to require greater equality in occupational schemes if not in the State scheme. There is in any case pressure from some quarters within the UK to equalise the State retirement ages, possibly coupled with some flexibility as to the actual age of retirement.

Extent of Occupational Pension Scheme Coverage

Most of the information shown below was obtained from "Occupational Pension Schemes 1979 — Sixth Survey by the Government Actuary". Figures relate to the position at 31st December 1979.

Size of population	56 million
Size of workforce	23 million
Number of occupational pension schemes	90,000
Number of members of schemes	11.8 million
Number of pensioners of schemes	3.7 million
Total funds (market value)	£53,000 million

The majority of schemes are very small: about two-thirds of all schemes have fewer than 10 members.

About 10 million members (14,600 schemes) were contracted-out of the State earnings-related pension.

Pensions for Directors and Proprietors

The widening of the scope for tax-free pension provision for the self-employed (and non-pensionable employees) has not only enabled consulting actuaries to make more adequate provision for themselves: it has also increased the demand for advice in this area for partnerships and other clients. The growth of pension schemes for controlling directors has also been encouraged by the "loan-back" facility now available whereby part of the assets can be invested back in the business without impairing Inland Revenue approval and the consequent tax reliefs.

Sick Pay

Government proposals to transfer the liability for short-term sick pay from the National Insurance Fund to Employers have been modified in the light of objections to the original proposals. In the terms of the Bill now published, Employers would be reimbursed for the actual amount of statutory sick pay, rather than paying a reduced rate of National Insurance contribution. The insurance element would therefore be retained by the State.

Policyholders' Protection Act

The Policyholders' Protection Act was reviewed, as required by statute, by the Policyholders' Protection Board. The Board, which made certain recommendations, received comments from various organisations including the Association of Consulting Actuaries.

Insurance Company Statutory Returns

The statutory returns of all UK insurance companies were altered with effect from their first full financial year after 1st January 1981. The work of Consulting Actuaries will be most affected by the revised certificate required to accompany a statutory life office valuation. The certificate now requires a statement as to the records kept by the life assurance company. The legislation defining the format of the new return also required that an Appointed Actuary should be aged at least 30.

Consulting actuaries were also involved in considering the new returns for general (casualty) insurance, which amplify and standardise the previous requirements.

Insurance Companies Act 1981

This Act had not come into force by the end of February 1982 but introduces, inter alia, a requirement for annual actuarial valuations of life offices.

EEC Life Directive and Valuation of Liabilities Regulations

The statutory requirements of the EEC Life Directive were incorporated into the Insurance Companies Regulations 1981. Meeting the requirements of the EEC Life Directive may cause a number of companies to alter some of their products, for example because of the restricted credit for reassurance offset in determining the requisite solvency margin.

These Regulations also incorporated the long-awaited valuation of liability regulations, upon which the Association of Consulting Actuaries has issued guidance notes for its members.

The larger Friendly Societies will probably in due course have to conform to the Directive, and Consulting Actuaries need to consider the implications for such clients.

Maturity Guarantees under Investment Linked Contracts

Following the discussions on the Report of the Maturity Guarantees Working Party at the Institute of Actuaries in January 1980 and at the Faculty of Actuaries in October 1980, the Government Actuary's Department sent a questionnaire to all life offices transacting business with such guarantees asking them what reserves they would have established on the model recommended by the Working Party.

Independence

Discussion within the profession on the potential conflict of interests of an Appointed Actuary to an insurance company have continued. It has been suggested, inter alia, that an Appointed Actuary who is a consulting actuary should be required to disclose the fees paid by the insurance company to his firm.

Professional Conduct

Following a discussion at the Institute of Actuaries in April 1980, the Institute's Code of Professional Conduct is currently under review, and this is likely to be affected by the views of the Office of Fair Trading.

One matter which has caused concern in the profession is the offering of actuarial advice by firms of accountants employing actuaries.