



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

July 30, 2008

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto Ontario Canada M5V 3H2

Dear Sir,

**Re: IAA comments on the Proposed International Public Sector Accounting Standard on  
*Social Benefits: Disclosure of Cash Transfers to Individuals or Households* and  
Consultation Paper on *Social Benefits: Issues in Recognition and Measurement***

In response to the request for comments on the March 2008 Proposed International Public Sector Accounting Standard on *Social Benefits: Disclosure of Cash Transfers to Individuals or Households* and Consultation Paper on *Social Benefits: Issues in Recognition and Measurement*, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the IAA Social Security Committee. If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the committee, Rob Brown, or any of the other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Yves Guérard  
Secretary General

[Attachment](#): IAA comments

**A Commentary on  
EXPOSURE DRAFT 34 PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD  
SOCIAL BENEFITS: DISCLOSURE OF CASH TRANSFERS TO INDIVIDUALS OR HOUSEHOLDS**

**AND**

**CONSULTATION PAPER ON SOCIAL BENEFITS: ISSUES IN RECOGNITION AND MEASUREMENT  
ISSUED BY THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD: MARCH 2008**

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty Full Member actuarial associations represent more than 95% of all actuaries practising around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries. The IAA appreciates the opportunity to provide comments on this consultation.

**Due Process**

These comments have been prepared by the Social Security Committee of the IAA, the members of which are listed in an Appendix to this statement. Our comments have been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s website.

Our comments are written from the perspective of actuaries involved in the provision of social insurance benefits. Long-term sustainability is of primary importance to actuaries, as we are often directly involved in projecting and evaluating the long-term sustainability of social security systems.

**General Comments**

First, we would like to congratulate the International Public Sector Accounting Standards Board for their diligence in preparing, discussing and bringing to paper a wide range of fundamental thoughts on social security benefits. We thank you for the opportunity to comment on the proposals and would be pleased to discuss them in more depth if this could be facilitated.

We believe that if our two bodies could combine their efforts, the resulting Standards would be measurably improved. In particular, we would like to contribute to this effort by:

- helping to define metrics for measuring financing gaps (one example follows in an Appendix to this document);
- supporting the professionalism of the Standards when actuarial certification is involved by prescribing model standards and practice guidelines for our members; and
- working to avoid any misleading information about program liabilities that could lead to inappropriate public policy decisions.

We respectfully suggest that a representative of the IAA participate on the IPSASB task force on long-term fiscal sustainability. The representative that we recommend will depend on the logistical requirements, but would be an actuary who is experienced in a social insurance program and can provide an actuarial perspective on the important issues that the task force is scheduled to address. We believe that the actuarial perspective can provide significant insight into recognition, disclosure and sustainability measures for social security systems.

### **The Actuarial Viewpoint**

We believe that the effective communication of information regarding solvency and sustainability are much more important than a partial reporting of apparent liabilities in reporting on the “health” of a Social Security system and that appropriate actuarial metrics for reporting solvency should be developed and disclosed.

To start, we have difficulty in clearly defining what programs are targeted. Are we looking at contributory programs only, tax financed programs, or both? What liabilities are to be reported: that of the program, that of the sponsor/Government or simply what could be seen as a contingent liability of the Government if contributions were to stop? We would note that many contributory social security programs now in existence have specific plan designs (e.g., Automatic Balancing Mechanisms) to make them self sustaining.

We believe that a partial view of the total obligations would be a confusing measure that would not enhance transparency. It could also lead to inappropriate public policy responses.

In our view there is a need to distinguish between debt (due and payable) and liabilities for expected scheduled or open-ended benefits. The distinction is often ambiguous. In this regard, we believe that future contributions need to be viewed as an asset of any contributory social security system and the resulting focus should be on developing appropriate actuarial metrics to report the difference or “gap” between expected asset-income and liability-outgo cash flows over various future periods.

We also believe that the information suggested in Exposure Draft 34 may prove quite onerous to many social security systems in terms of the ability to provide this information on a timely basis. In addition, an amount of liability is very difficult to interpret unless there is a relevant benchmark to determine if it is too low or too high; that is precisely the information that a reporting of the “gap” would provide.

We believe that transparency of information about the current and expected future condition of a social insurance program is very important from a public policy perspective. Whether or not this information is included in the balance sheet of a government entity or in clearly presented disclosure, key assumptions used, risks involved and sensitivity to variations in the key assumptions are vital to effective external and management of social benefit programs. We recognize that the resources available to develop this information can vary widely by country; nevertheless, a minimum amount of relevant information is needed by the public and key public policy decision-makers.

**A Specific Comment**

We note that in Exposure Draft 34 entities are required to disclose whether qualified actuaries have been used to advise on some or all assumptions used in evaluating programs and, if so, whether internal or external actuaries have been consulted. In our opinion, a preferable approach would be to require that when a program relies on “actuarial calculations”, it be desirable for such calculations be performed by a recognized member of the actuarial profession.

**Conclusion**

In summary, the IAA would appreciate the opportunity of working with the International Public Sector Accounting Standards Board to include the actuarial perspective in the recognition, disclosure and sustainability measures for social security systems.

We believe that by working together we will end up with a better work product and improved measures to inform the various stakeholders and the civil society at large about these vitally important programs. We look forward to further dialogue on these important matters.

**A Sample Actuarial Metric**

A useful metric for inter-generational equity is the lifetime net benefit rate. This metric is computed as the present value of net lifetime social security benefits aggregated for all members of a birth cohort, where the net lifetime benefits is developed from the difference between the value of benefits and the value of the corresponding revenues (contributions or taxes and investment income) for that birth cohort. This is expressed as a percentage of the value of the cohort's aggregate lifetime payroll. The extent of the deviation from a zero-base in the net benefit rate provides a measure of the extent to which each generation is funding its own scheduled benefit entitlements or is effecting an inter-generational transfer of funding.

This is similar but different from another Actuarial Metric that represents the level contribution that would be necessary to maintain the solvency of the program over a long period and that could be used to measure the "gap" referred to above.

The element of uncertainty inherent in any projections could be illustrated based on alternative "scenarios" or sets of economic and demographic assumptions (i.e., effectively a sensitivity analysis). Where possible, stochastic projections would be preferable.

## *Appendix B*

### **Members of the IAA Social Security Committee**

Robert L. Brown	Chairperson
Jan Hagberg	Vice-Chairperson
Gorakh Nath Agarwal	Institute of Actuaries of India
Adrian Baskir	Actuarial Society of South Africa
Jânis Bokâns	Latvijas Aktuaru Asociacija
Robert L. Brown	Society of Actuaries
Kenneth Buffin	American Academy of Actuaries
Barbara D'Ambrogi-Ola	Suomen Aktuaariyhdistys
Rosa Maria Farell Campa	Colegio Nacional de Actuarios A.C.
Maria Hablicsek	Magyar Aktuárius Társaság
Klaus Heubeck	Deutsche Aktuarvereinigung e.V. (DAV)
Bozenna Hinton	Institute of Actuaries of Australia
Martin Kosztolanyi	Slovenska Spolocnost Aktuarov
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Jan B. Kuné	Het Actuarieel Genootschap
Jean-Claude Ménard	Canadian Institute of Actuaries
Mary Frances Miller	Casualty Actuarial Society
Takashi Mizukami	Japanese Society of Certified Pension Actuaries, Institute of Actuaries of Japan
Thierry Poincelin	Institut des Actuaire
George M. Psaras	Cyprus Association of Actuaries
Sissel Rødevand	Den Norske Aktuarforening
Luis Maria Sáez de Jáuregui Sanz	Instituto de Actuarios Españoles
Bruce Schobel	Conference of Consulting Actuaries
Fructueux Tétiali	Institut des Actuaire de Côte d'Ivoire
Ana Topolovec	Hrvatsko Aktuarsko Drustvo
Wilma Gomes Torres	Instituto Brasileiro de Atuária (IBA)
Andrew Young	Institute of Actuaries

**Full Member Associations of the IAA**

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires  
(Argentina)  
Institute of Actuaries of Australia (Australia)  
Aktuarvereinigung Österreichs (AVÖ) (Austria)  
Association Royale des Actuaire Belges (Belgique)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Bulgarian Actuarial Society (Bulgaria)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
Actuarial Institute of Chinese Taipei (Chinese Taipei)  
Institut des Actuaire de Côte d'Ivoire (Côte D'Ivoire)  
Hrvatsko Aktuarsko Društvo (Croatia)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárů (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuaire (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Islenskra Tryggingastærðfræðinga (Iceland)  
Institute of Actuaries of India (India)  
Persatuan Aktuaris Indonesia (Indonesia)  
Society of Actuaries in Ireland (Ireland)  
Israel Association of Actuaries (Israel)  
Istituto Italiano degli Attuari (Italy)  
Institute of Actuaries of Japan (Japan)  
Japanese Society of Certified Pension Actuaries (Japan)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Lietuvos Aktuariju Draugija (Lithuania)  
Persatuan Aktuari Malaysia (Malaysia)  
Colegio Nacional de Actuarios A. C. (Mexico)  
Association Marocaine des Actuaire (Morocco)  
Het Actuarieel Genootschap (Netherlands)  
New Zealand Society of Actuaries (New Zealand)  
Den Norske Aktuarforening (Norway)  
Pakistan Society of Actuaries (Pakistan)  
Actuarial Society of the Philippines (Philippines)  
Polskie Stowarzyszenie Aktuaruszy (Poland)

Instituto dos Actuários Portugueses (Portugal)  
Academia de Actuarios de Puerto Rico (Puerto Rico)  
Udruženje Aktuara Srbije (Serbia)  
Singapore Actuarial Society (Singapore)  
Slovenska Spolocnost Aktuarov (Slovakia)  
Slovensko Aktuarsko Drustvo (Slovenia)  
Actuarial Society of South Africa (South Africa)  
Col.legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaires (Switzerland)  
Society of Actuaries of Thailand (Thailand)  
Faculty of Actuaries (United Kingdom)  
Institute of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
American Society of Pension Professionals & Actuaries (United States)  
Casualty Actuarial Society (United States)  
Conference of Consulting Actuaries (United States)  
Society of Actuaries (United States)