

A 1929 Crash or just another chapter in the 2008 Financial Crisis?

Recent events have been staggering with major banking, investment and insurance collapses across the pond – Washington Mutual, Lehman Brothers, Merrill Lynch and AIG. Here HBoS was quickly absorbed by Lloyds TSB and Bradford & Bingley was nationalised to allegedly avoid queues on the high street as we witnessed with Northern Rock. It is pretty safe to say that (1) we don't know the whole story yet, (2) these institutions may not be the last, (3) matching of assets and liabilities, diversification and business models will be under much greater scrutiny in future, (4) stock lending and short selling may change for good and (5) there will be increased regulation. Banking is currently about confidence, confidence and confidence. In the meantime for pension funds there will be some questions to be asked. My suggestions include –

1. For those with active managers; What was and is your position and how active were you?
2. For those with liability driven investment (LDI) strategies; What exposure do you have counterparty risk? Replacing counterparty X with counterparty Y may well be possible, but at what price?
3. For those with hedge fund investments; Will you be able to operate in the new credit environment?
4. For those with cash; Who is making the crucial timing decisions on getting back in the market?
5. For those with advisers; What was said and done and how did this compare with what you expected?

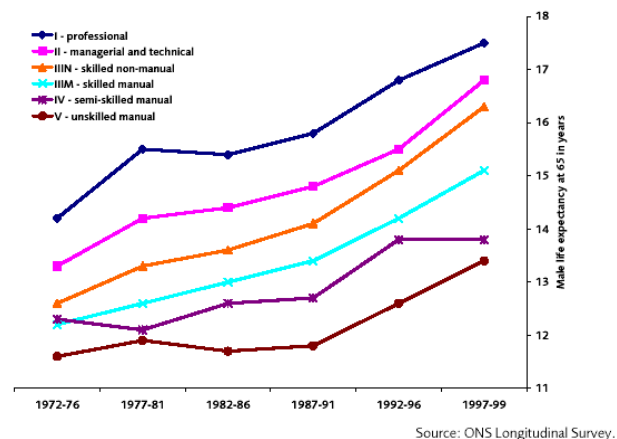
Mortality

On 23rd September the Pensions Regulator (TPR) issued guidance on setting mortality assumptions in actuarial valuations. This followed a consultation paper in February this year (see March Snippets). The guidance, looked at in isolation, is very helpful and sensible. It however prompted newspaper headlines such as “TPR u-turn” because of the removal, after significant lobbying by employers pension industry bodies and some consultants, of any steer to the level of future mortality improvement (such as via the “long cohort”). TPR obviously thought it had more important battles to fight.

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Figure 10. Male life expectancy from age 65 by socio-economic group



Sadly the guidance also almost totally ignores postcode analysis (only one reference in paragraph 18) and for trustees of small schemes, those under 5,000 lives, such analysis provides a valuable insight in to the liability profile and the starting or base point from which future improvements can be taken.

1st October 2008

The beginning of the month sees a change to the Companies Act which requires company directors who are also pension scheme trustees to get explicit authority from their company board for the potential conflict of interest with their director responsibilities. Scary stuff, whatever next, actuaries revisiting their Chinese walls?

And finally; The Pensions Advisory Service celebrated its 25th anniversary in July (see my [article](#) in The Actuary Magazine). The directors of ACMCA Limited, Mr. & Mrs. Martin, are also pleased to have celebrated their 25th wedding anniversary. The weather postponed special occasion involved jumping out of an aeroplane at 10,000 ft above Gleneagles, a tandem skydive. This of course followed an appropriate risk assessment.

As always, for further comment, assistance, advisory or trustee services, contact me on 07714 064964 or via allan@acmca.co.uk Feedback on Pension Snippets is always welcome. For further details, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at www.acmca.co.uk