Two-pronged strategy the solution for pension funds

Pension fund actuaries face a substantial moral and professional responsibility to fund members in advising on, designing and maintaining sustainable retirement funds...

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"Actuaries operate in a market characterised by increasing uncertainty, volatility and risk, in a world too often rocked by corporate scandals and financial scams," says Corné Heymans of ARGEN Actuarial Solutions.

"Given this, along with the weighty responsibility of influencing how large sums of fund members' life savings will be managed, it is not surprising that the independence and transparency of actuarial decisions are increasingly subject to scrutiny, as stakeholders seek reassurance that these decisions are based on only one consideration: the best interests of fund members."

Heymans explains that there has been much debate whether the interests of members are best served by appointing an in-house actuary, who is employed by one of the fund's service providers such as the administrator or investment consultant, or by contracting an independent third party actuary or actuarial firm. "In reality, the decision is often dictated by simple economics and practical considerations," says Heymans.

Smaller funds

"For smaller funds, the economically viable option is often to appoint a 'one-stop-shop' service provider to provide administration, consulting and actuarial services. Over and above potential cost savings, this has the advantage that there is a close working relationship between the valuator, administrator and consultant so that problems can be identified and addressed more efficiently.

"Larger funds often avoid any potential conflicts of interest by appointing an administrator, along with an independent third party actuarial firm, with the consulting services provided by one of these specialists or another independent service provider. Independence has benefited many defined contribution funds where the actuary, looking from the outside, is able to help the trustees in identifying gaps or areas of improvement," he explains.

Either way, the trustees remain ultimately responsible to ensure the transparency and independence of all decisions in the fund and they often rely on the actuary to assist them in this regard. "But trustees do not necessarily always perceive the actuary to be completely unbiased, especially if the remuneration of the actuary includes performance bonuses linked to his/her employer's performance or, more explicitly, to commissions earned from placing investments," comments Heymans.

"While it can be argued that the decisions of the in-house actuary may be swayed by fear of jeopardising his/her remuneration, the same can be true of a third party actuary who may also have a business relationship with the fund's service providers or be eligible for the same commissions," he says.

Code of conduct

Arthur Els, director of ARGEN, suggests a two-pronged strategy. "First, the fund needs to check that the designated actuary - whether in-house or third party - is bound by the strict Code of Professional Conduct of the Actuarial Society of South Africa (ASSA). This demands honesty, integrity, competence and due care, as well as an upfront, complete declaration of any existing or potential conflict of interest. Such an actuary can be expected to make ethical calls in the interest of the fund and its members, without being influenced by any personal consequences."

"Secondly, an additional level of risk management and corporate governance, regardless of whether an in-house or third party actuary is used, can be added through independent peer review of any major actuarial decisions taken by the trustees. This provides a fresh perspective and ensures transparency to the trustees. It is an excellent risk management approach which gives all stakeholders peace of mind that the actuarial decisions taken by the fund have been corroborated by an independent outside third party actuary," says Els. "Such peer review or independent oversight is highly recommended by both ASSA and the Financial Services Board."

"Some funds may not be able to afford to implement the two-pronged strategy, but it nevertheless remains the ultimate solution for funds that value transparency, intelligent risk management, and exemplary corporate governance," concludes Els.