

Dear Sirs

I appreciate that I may be out of time in making a submission, but it has been triggered by the similarity of the Pension shortfalls reported yesterday to those of the Mortgage Endowment scandal.

The common theme is the actuarial assumptions made in the valuation of future investment earnings of with-profit endowment assurances and of pension fund liabilities.

In the 1960's, life funds were predominately invested in gilts and mortgages with valuation assumptions of around 3%pa.

In the late 1970's, there was an increasing shift of investment funds into equities, and, with the bull market of the 1980's, significantly higher investment profits were made in life insurance and pension funds leading to markedly higher bonus predictions.

In 1989, my daughter was sold a mortgage endowment assurance that required an actuarially calculated investment return of 8.4% pa for twenty five years. Now, the predicted return is around 4% pa that would result in a mortgage shortfall of 36%. Initially, the insureds were advised to take out more of the same, but now, to claim compensation, the insured has to demonstrate mis-selling by the agent.

In the same period, pension fund valuations were showing significant surpluses, on the strength of the bullish assumptions, that allowed many employers to take premium contribution holidays; Sir Robert Maxwell of the Mirror Group is a notable example. Now, scheme members and personal pension holders are told that they are not saving enough.

In 1988, The Equitable Life withdrew its Guaranteed Annuity Option of 11% pa on its various with-profit endowment assurances. Again, evidence of earlier flamboyant assumptions in the method of fund valuations.

The life insurance and pension industry has moved from security, confidence and profitability on relatively low percentage investment returns of the 1970's to the significant shortfalls now predicted for mortgage endowments and personal pension policies and the closure of many occupational pension schemes of today; all in the space of thirty years in centuries old life insurance businesses.

The situation cannot be blamed upon Nigel Lawson's 1980's comment, whilst Chancellor of the Exchequer, that there had been a structural shift in the economy. Some fundamental shift occurred in the actuarial practice or theory in life fund valuations. No doubt, EMAG have formulated a submission to your Committee, but the 1989 submission to the Journal of The Institute of Actuaries by Roy Ranson, "With Profits, Without Mystery" suggests a change of approach.

In my view, the smoke screen of "mis-selling" of mortgage endowment policies and "not saving enough for pensions" are not the blame of the lay public but a collective failure of the actuarial profession to adequately reserve for the long term security of life funds during the 1980's. The reasons for the shortfall in pension schemes and for those not saving at all are separate issues and should be addressed independently.

As actuaries predominate in most life insurance and pension funds investment committees, it poses the question why similarly trained actuaries determine the long term value of those investments. It begs the question for independent review by other professions. I have some years experience in the life insurance industry, both here in the UK and in the USA, and do not believe the UK industry would be in such turmoil were it regulated in USA fashion.

I would hope that your Review Committee will question why the relatively short term investment gains of the 1980's were projected for the longer terms of pension and with-profit endowment policies, and with such catastrophic losses to their customers. It is a matter of questioning and trailing the changing valuation assumptions from the previously mentioned 3% to 8.4% and now back to an optimistic 4%. Why was the short term dot.com. bubble allowed damage the security of life funds, or, is it just another excuse?

Yours faithfully

John Flowers