

Sharp fall in KIBOR; rise in share prices

The Karachi Inter-Bank Offer Rate (KIBOR) has fallen sharply in the last three months. For example, the 3 month offer rate was 15.50 % pa on 2 Jan 2009. On 28 Mar, it was 12.53 %. Yields on Government Bonds have also fallen.

The KSE 100 Index hit a recent low of 4,815 on 26 Jan 2009. By 27 Mar, it had risen by 41 %, to 6,803. (The KSE 100 is a “total return index”, including dividends).

Lower SSC and Bahbood returns from 1 April 2009

In view of the fall in yields, returns on SSC’s, Bahbood and Pensioners’ Benefit were reduced:

Issue date	SSC’s, yields per half year		Bahbood/Pensioners, yields per month
	1 st 5 half years	6 th half year	
1 Dec 08 to 31 Mar 09	7.2 %	7.5 %	1.4 %
1 Apr 09 onwards	6.5 %	7.1 %	1.342 %

International Accounting Standard 19 (IAS 19) uses a volatile cost method

IAS 19 uses the Projected Unit Credit (PUC) actuarial cost method. The standard requires the use of yields, and market values, on the valuation date. Changes in economic assumptions and asset values can be sudden and sharp. This can result in volatile costs. Actuarial gains and losses fall straight through to the bottom line, unless mitigated by amortisation outside the 10% “corridor”.

Two amendments were made recently. The first allowed faster amortisation of actuarial gains

and losses. Indeed, they can be recognised in one year. This amendment is hard to reconcile with the objective of uniform treatment, to enable comparisons between entities.

The second amendment permitted actuarial gains and losses to go straight to shareholders’ equity, without passing through P & L. If there were losses, this improves the cosmetics of the P & L. But it reduces the transparency of the accounts.

Early Bird Seminar on 19 March 2009 on current Retirement Benefit issues

Akhtar & Hasan held an Early Bird Seminar on 19 March 2009 at Karachi on the above subject. The presentation is on our web-site.

Samee-ul-Hasan, Consulting Actuary, analysed the multi-dimensional phases of retirement. He highlighted the steep increase in health care costs of the retiree and spouse, as their ages increase.

In the USA, 42% of people aged 75 or more have some restriction on their activities, caused by a physical or mental problem. This leads to a high probability that they would ultimately need help with day to day living. Pakistan’s situation is very likely to be similar.

There are over 50 million working Pakistanis. EOBI pensions are the only way the vast majority can retire with dignity. Samee-ul-Hasan consistently advocates the phased expansion of EOBI into a National Basic Pension Scheme.

Post retirement medical coverage is vitally important for all. The Federal and/or Provincial Governments should provide health care to the whole population, especially old people.

Unfortunately, no Government action is likely on these matters in the near future. Employers and employees have to provide for retirement needs, to the extent practical. This applies to income for living expenses, and medical care expenses. The latter poses difficult problems.

The presentation discussed issues arising from the trend towards Defined Contribution schemes, and described possible solutions.

The high cost of dying

When an old person falls sick or has an accident, somebody has to decide what medical treatment should be given, or not given. The patient may be mentally incapacitated. Decisions have to be taken by relations, in consultation with doctors. Naturally, they want the best possible treatment.

Despite best treatment, many patients die. A very large proportion of health care costs is incurred at the end of life. Perhaps the patient would have preferred to die with dignity, instead of “increasing the cost of dying”.

End-of-life treatment: “living wills”

End-of-life treatment raises issues of individual decision-making, medical ethics and public policy. Hospitals in other countries have elaborate "Do Not Resuscitate" procedures. In March 2009, the UK's General Medical Council issued draft guidelines on end-of-life treatment.

The US Patient Self-Determination Act, 1991, and the UK Mental Capacity Act, 2005, (which applies to England and Wales), empower mentally sound individuals to give advance directions about medical treatment to be given or refused if a serious illness strikes. These advance directions are popularly called “Living Wills”, though they do not deal with the disposal of a deceased's estate.

The UK Act provides for a Personal Welfare Power of Attorney to be given to a person, empowering him or her to decide on personal welfare matters, including medical treatment. The website www.alzheimers.org.uk has a useful summary on these matters., with a form of a “Living Will”. Some of this relates to UK law and practice, but much is of general interest.

In Pakistan, defence personnel and a few other groups get free old age treatment. But for the great majority, the cost has to be paid privately.

A final illness can seriously deplete the finances of a Pakistani retiree or his family. Maybe Pakistanis should also consider “Living Wills”. Even if they are not legally binding, they may act a guide to relations and doctors.

Pressure on former CEO of a UK bank to give up part of his pension of £ 703,000 pa

An important UK bank ran into difficulties after making large losses. The UK Government rescued it, at a cost of £ 20 billion +. The CEO, who held office when the losses took place, left his post in autumn of 2008, aged about 50 years.

His pension was set at £ 703,000 pa. The UK Government initially understood this to be an unavoidable contractual obligation. But in February 2009, ministers learnt that the bank's board doubled his pension, after the decision was taken that he should leave.

There was an outcry at this disclosure. The Prime Minister and the Chancellor of the Exchequer expressed their anger. The Treasury Minister wrote to the former CEO, asking him to give up part of his enhanced pension.

So far, he has stood on his legal rights, claiming that Government had agreed to the increase. Government is considering suing the two bank directors who negotiated the higher pension. It is also considering new laws to tackle this issue.

Scottish doctor says chocolates are unhealthy, and should be taxed!

Dr David Walker, of Scotland, says chocolates are a major cause of obesity, and can contribute to diabetes, high blood pressure and back pain. He recommends that they should be taxed, to raise their profile as an unhealthy food.

Readers should take expert advice on legal, tax and investment matters

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