obligations to existing policyholders are met in full. Having satisfied this overriding principle it is a valid question for shareholders to ask if their interests are best served by keeping the life office open and writing the maximum level of new business, writing a restricted level of business or closing the office to new business altogether. The importance of continuing viability studies and corporate plans to answer these critical questions is emphasized.

INDEX-LINKING IN THE U.K.

by

D. H. NEWTON

(Synopsis of a paper presented to the Society on 16 December 1980)

During recent years, the United Kingdom has experienced high and variable rates of inflation. Consideration has therefore been given to techniques, like indexation, which may help to reduce the impact of inflation.

The paper surveys the many areas where some form of index-linking has been introduced in this country. It then discusses the theoretical economic arguments for and against indexation. Whether indexation will help to reduce inflation or increase the inflationary pressures is not clear. The major argument for introducing index-linking is that it helps reduce the inequities caused by inflation, in particular for long-term contracts where the risks and uncertainties are even greater. The indexation of specific short-term contracts—wages and taxes—is therefore only briefly considered and the paper concentrates on the areas of pensions and fixed interest investments.

Since the paper was presented there have been two issues of index-linked gilts, restricted to pension funds and the pensions liabilities of insurance companies; at issue the first gave a real return of 2%, the second $2\frac{7}{8}$%. At the latter rate of return pension funds will nearly obtain the return they expect on average from all their assets and it is guaranteed. One would expect pension funds to be prepared to invest a reasonable proportion of their assets into such a security.

Pensions are at the forefront of the public discussion about indexation. There is a division between the public sector which in

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general gives inflation-proof pensions, and the private sector which does not. However, many private sector pensioners have received significant *ad hoc* and fixed increases in pensions. There is therefore pressure for more conformity of pensions arrangements. The abandoning of index-linked pensions in the public sector would be a retrograde step; the alternative would be for the private sector to guarantee its pensioners greater protection against inflation.

There are two major obstacles to the private sector providing index-linked pensions; firstly can industry guarantee to pay open-ended nominal liabilities over which it has no control, and secondly will the costs be too high? The government could help overcome the first problem either by issuing index-linked bonds or offering to accept the liability for pension increases for a pre-arranged sum. The costs of introducing index-linked pensions are very high; it could increase the cost of pensions by 70%, although there are some off-setting factors. It is therefore worth considering whether pensioners should not receive a lower pension which would then be index-linked. Then they will be able to retain their standard of living as they get older, albeit a lower one.

In some cases the practical difficulties and possible adverse repercussions elsewhere in the economy outweigh the benefit to be derived from the introduction of indexation. However, there are definite advantages to be gained from indexing private sector occupational pensions. The present debate should therefore concentrate on ways to improve private sector benefits rather than envious criticism of those who have the security of a pension which will not be eroded by inflation.

ACTUARIAL MANAGEMENT OF A UNIT-LINKED OFFICE

by

M. IQBAL

(Synopsis of a paper presented to the Society on 6 January 1981)

The terms upon which the office transacts business should be judged within the overall constraint of the office's long- and short-term corporate objectives. The two most common objectives are a specific rate of return on capital employed and a specific increase

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