

Developing a framework for the use of discount rates in actuarial work – References and other material

[Nematrian website page: [DiscountRatesFrameworkRefs](#), © Nematrian 2015]

This paper explores the use of discount rates in actuarial work. References within the paper are set out below. A summary of the paper is available in: [a framework for the use of discount rates in actuarial work](#).

Abstract

The Management Board of the UK Actuarial Profession is undertaking a thought leadership cross-practice research project on the use of discount rates by UK actuaries. The timing for this research is particularly appropriate as there is a convergence of interest in discount rates from within and outside of the Profession. Discount rates are at the heart of most actuarial calculations and are of significant public interest. As part of this project the Management Board wants a full and open debate on the significant issues and this paper is the next step in stimulating that debate, giving another opportunity to influence the future direction of the project.

The Management Board set up a small cross-practice steering committee to drive the project. The Discount Rate Steering Committee identified five areas of work that would be needed to achieve the project's overall objectives:

- (1) A survey of current practices
- (2) A survey of existing research and debate
- (3) Developing a common language for communicating discount rates and risk
- (4) Developing a common framework for the future where appropriate
- (5) Considering the impact of any changes.

Although the Profession does not set standards for technical work it still has a significant role for undertaking research in the public interest which supports the competence of its members and the furtherance of actuarial science.

Chinu Patel and Chris Daykin were commissioned to undertake the first part of this work and they presented their preliminary output at a forum of thought leaders across the Profession and externally on 23 March 2010. Their report "Actuaries and Discount Rates" was subsequently published in May 2010 and presented the results of their initial research into past and current practice in the setting of discount rates in the UK, and a survey of existing research and debate. A summary of that report is included in Section 2 of this paper.

Following consultation both within and outside the Actuarial Profession, this interim paper now takes forward the ideas and initial steps developed by Patel & Daykin and looks at developing a common language and framework for using discount rates in actuarial work. The Discount Rate Steering Committee is making a number of recommendations to the Profession which are intended to help actuaries speak clearly and with authority in future debates about discount rates and to support actuaries in communicating impartially and effectively. The recommendations are set out in Section 6 of the report following the development of the framework in Sections 3-5.

As part of further developing the recommendations to the Profession, the Discount Rate Steering Committee is seeking views from stakeholders from inside and outside of the Profession. This will be undertaken throughout January and February 2011 and, as part of this process, the report will be

presented at sessional research events in Edinburgh (17 January 2011) and London (31 January 2011). The Discount Rate Steering Committee is committed to seeking feedback on the recommendations and hopes this paper will give those inside and outside the Profession an opportunity to add to the dialogue so that as wide a range of potential views as possible is heard.

In this paper, the steering committee has concentrated on the more technical aspects of developing a framework for communicating discount rates and associated risks and the report is aimed primarily at actuaries. But the committee is mindful of the need to help actuaries communicate more clearly with those outside the Profession. During the first half of 2011, the steering committee will therefore concentrate on producing a document in less technical language to help non-actuaries understand the issues around the selection and use of discount rates and to help actuaries in their communication with stakeholders.