

The Actuarial Profession
making financial sense of the future

Pensions Conference 2011
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Measuring DB obligations Perils and pitfalls

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Why bother?

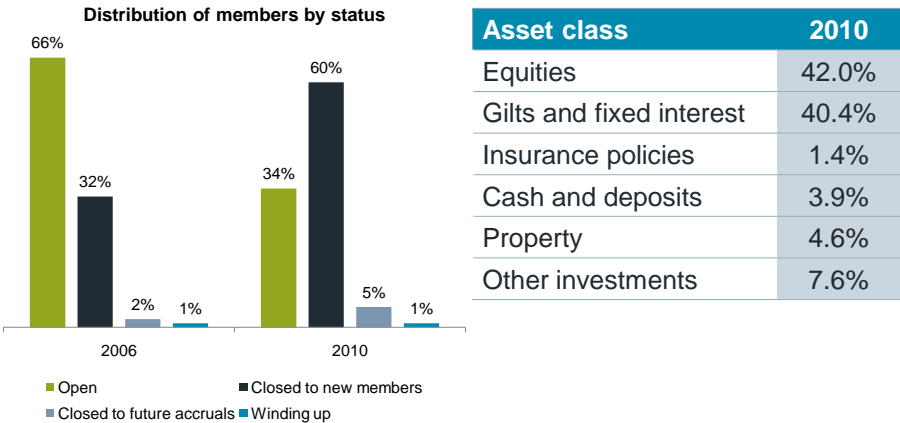
- The only function of economic forecasting is to make astrology look respectable - J. K. Galbraith
- When models turn on, brains turn off – T. Schulman
- All models are wrong, but some are useful – G. Box
- Support decision making in face of uncertainty
- Whose decisions...
- ...with what objective...
- ...how much appetite for risk...
- ...under which constraints?

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Context

Source – The Pensions Regulator ‘Purple Book’ 2010



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Crux of the issue



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Management framework



- Objectives might include:
 - Delivery of defined benefits...but with what level of risk?
 - Delivery of adequate benefits...but what chance discretionary increases
 - Minimizing short term cash cost
 - Minimizing cumulative cash cost
 - Understanding financial cost of promise

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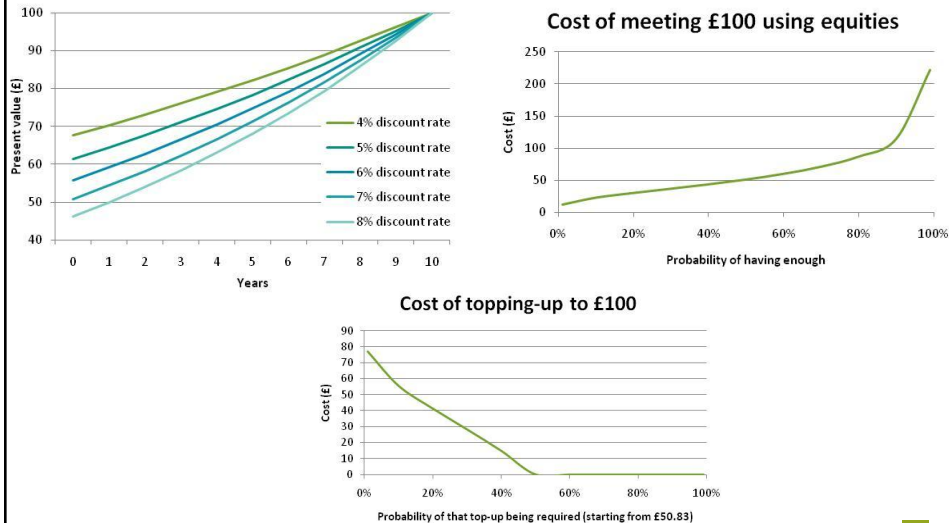
Joining the dots



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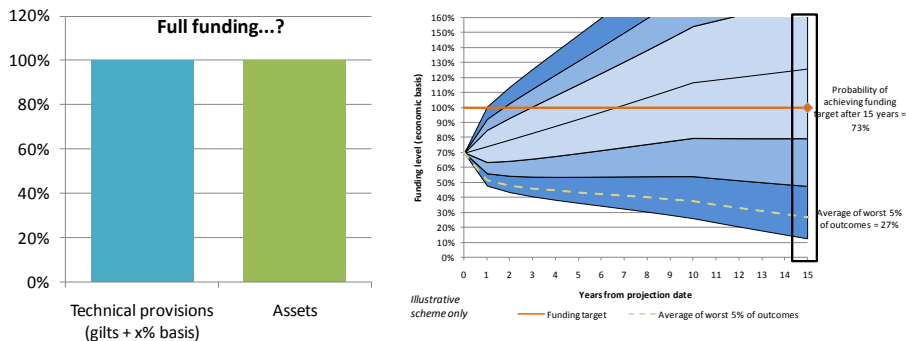
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Helping illustrate uncertainty



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Helping illustrate uncertainty



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Supporting management approaches

- Funding the benefits
- Hedging risks
- Achieving self-sufficiency
- Or understanding shareholder value

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Questions for the audience

- How can we better use technical provisions
 - Typical discount rate approach all but ignores risk, whichever discount rate you use
 - Are they really a target in themselves
 - Why would trustees not target self-sufficiency
 - Does pension regulation and professional standards help actuaries or their clients make decisions in light of risk
- What is de-risking
- Is this all just common sense and what are the barriers to applying it

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Questions or comments?

Expressions of individual views by members of the Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

