

## C1: Defined benefit pension plan funding and corporate value

**Speaker:** Dr Iain Clacher

Leeds University

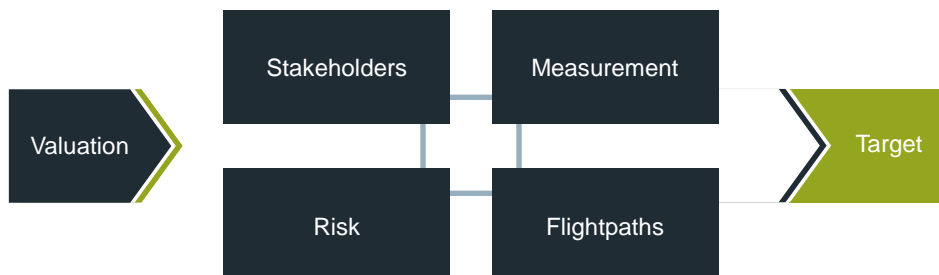
Marcus Hurd

Aon Hewitt

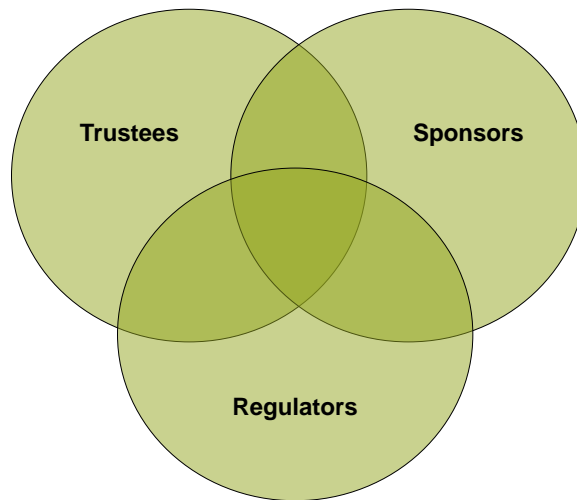


**Chair:** Graham Mobbs

### Overview



## Stakeholders → Agreement



2

## Measurement → Objectives

- Pay As You Go
- Sponsor reliant funding
- Sustainable approach
- Hedging
- Self-sufficiency / Solvency II
- Buy-out

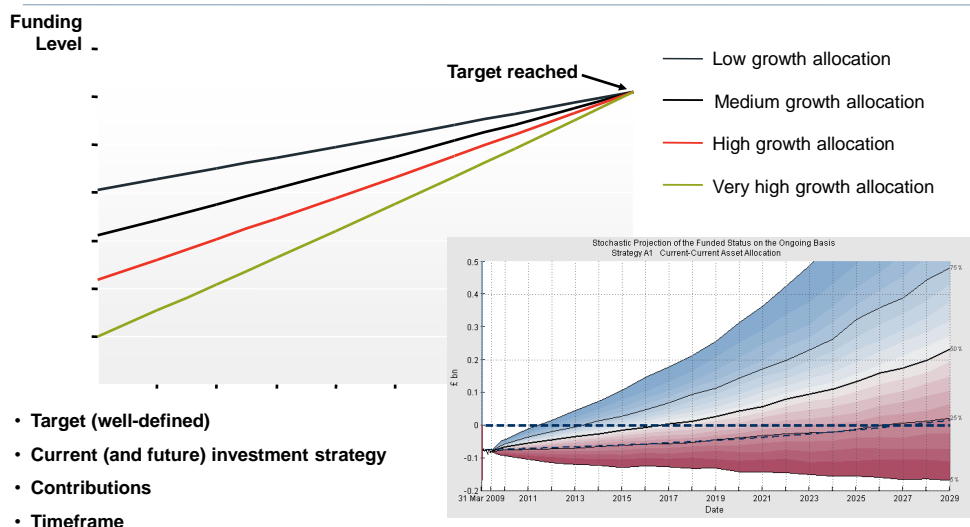
3

## Risk → Disclosure

- Discount rates do not make risk explicit
- No perfectly 'matching' assets
- Make stakeholders want to allow for 'value'
- Proposed solution:
  - 1. Use market values
  - 2. Quantify sources of funding improvement
  - 3. Quantify risks as well as returns
  - 4. Agree a transparent funding target
- Trade-off between full information and engagement

4

## Flightpaths → Meeting your target



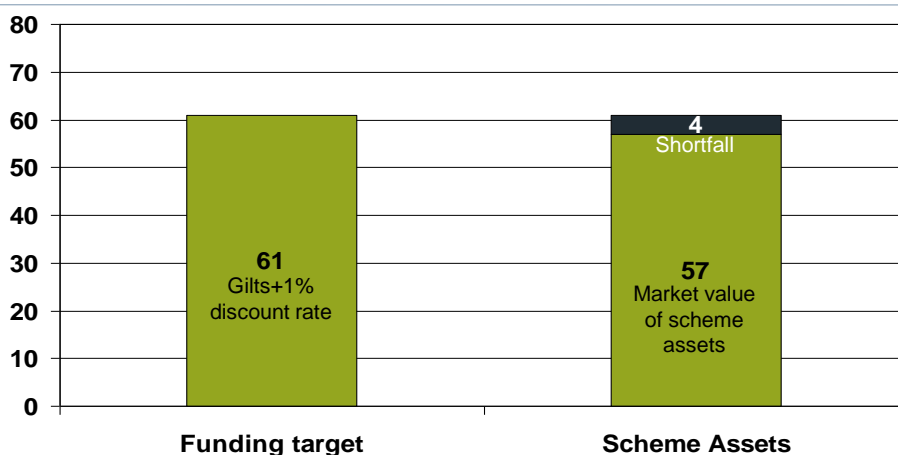
5

## Example

- Payment of 100 due in ten years' time
- Funding basis is gilts + 1%

6

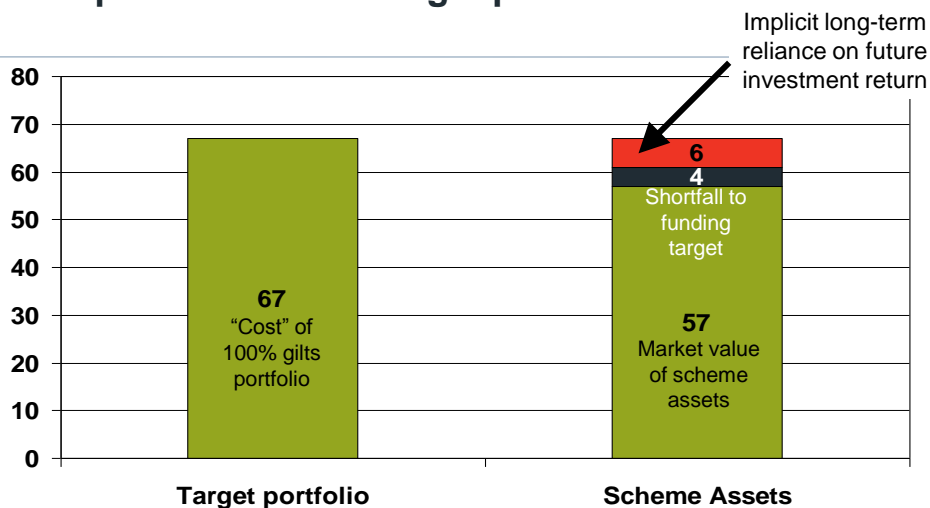
## Example: Shortfall to funding target



Shortfall of 4 compared to assets that would be required today to meet "gilts+1%" funding target

7

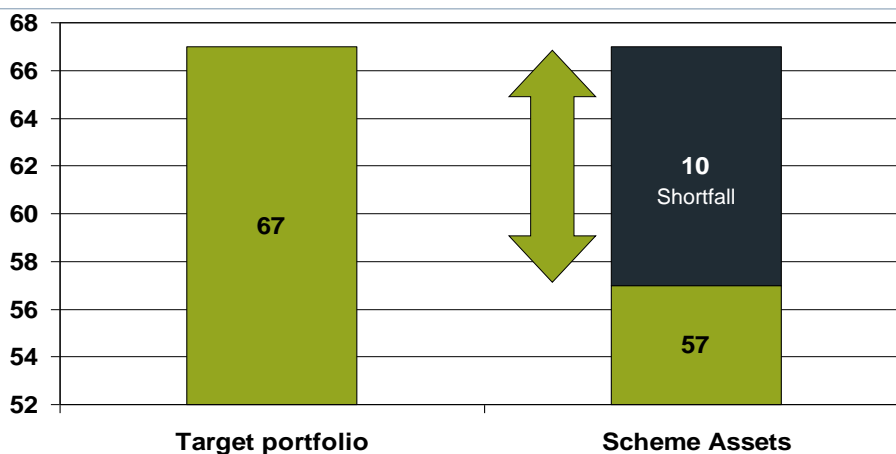
### Example: Shortfall to target portfolio



Shortfall of 10 compared to assets that would be required today to buy the 100% gilts portfolio

8

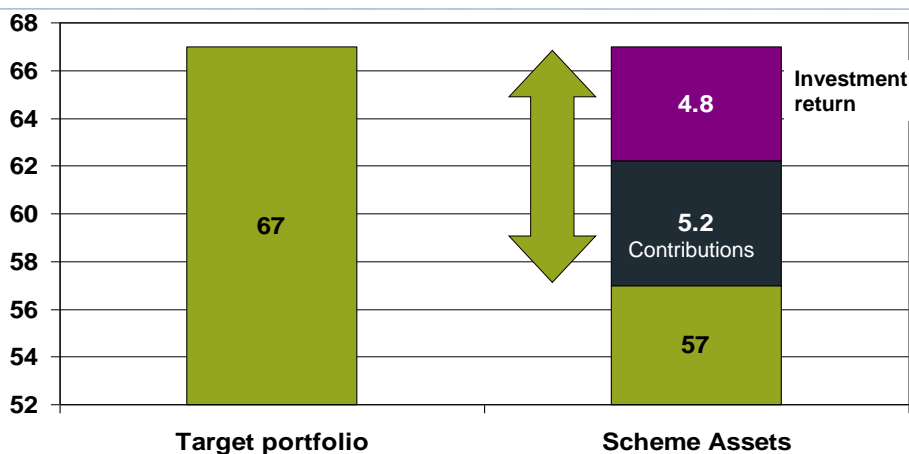
### Example: Shortfall to target portfolio



Shortfall of 10 compared to assets that would be required today to buy the 100% gilts portfolio

9

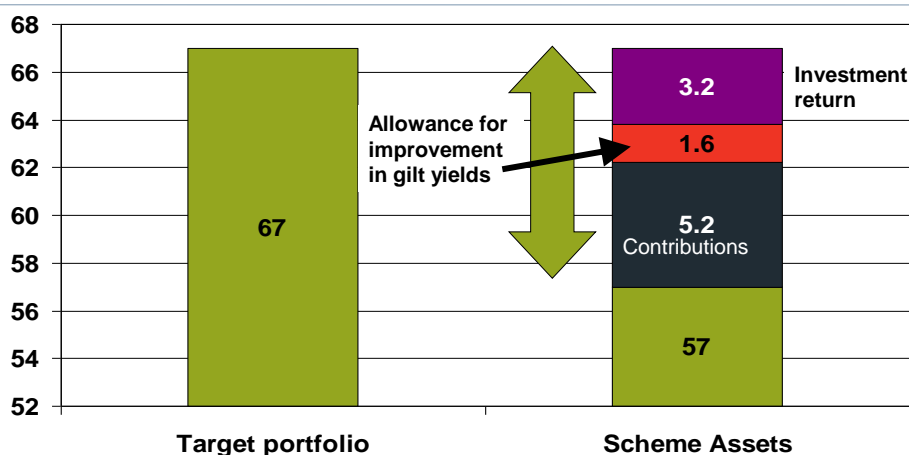
## Example: Meeting the shortfall



Shortfall expected to be met by contributions (5.2) and 5 year investment return of 50% growth assets and 50% gilts (4.8)

10

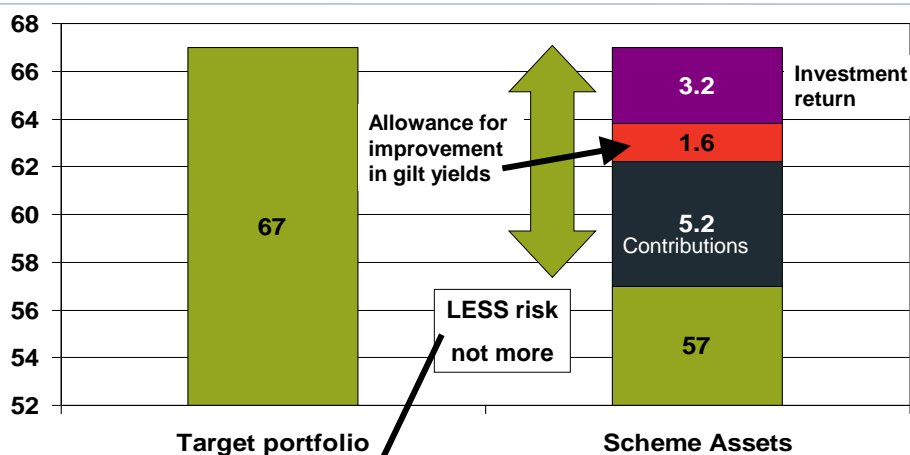
## Example: Meeting the shortfall



Allowing for expected improvement in gilt yields reduces the required expected investment return (3.2) to 33% growth assets

11

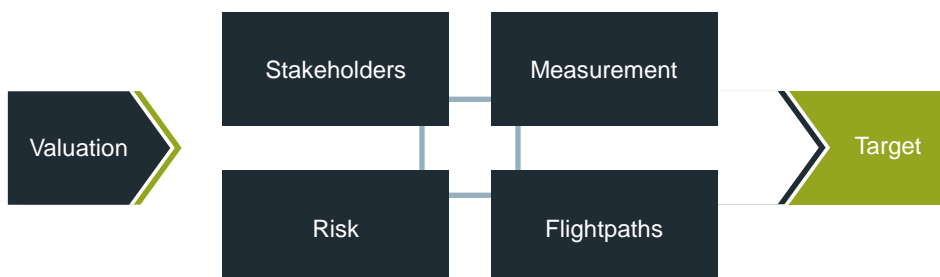
## Example: Meeting the shortfall



Allowing for expected improvement in gilt yields reduces the required expected investment return (3.2) to 33% growth assets

12

## Conclusions



13

---

## 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.

