

2012 Pensions Conference
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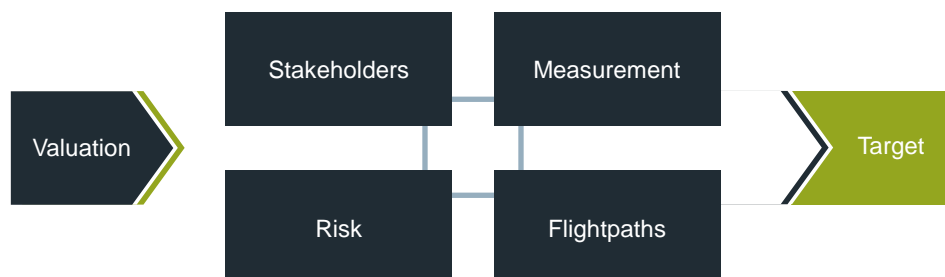


Meeting Pension Obligations

Measurement, risk and flightpaths

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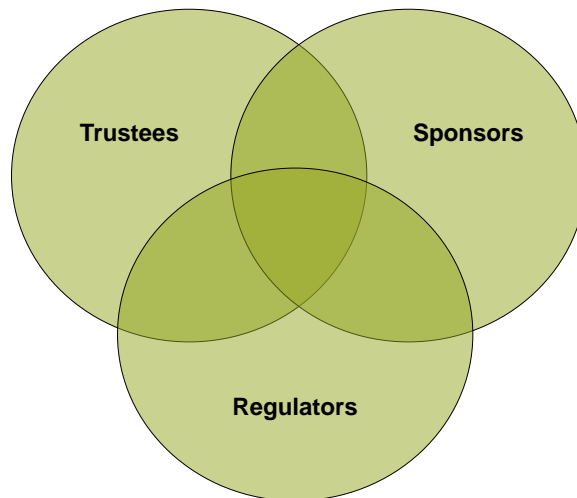
Overview



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Stakeholders → Agreement



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Measurement → Objectives

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

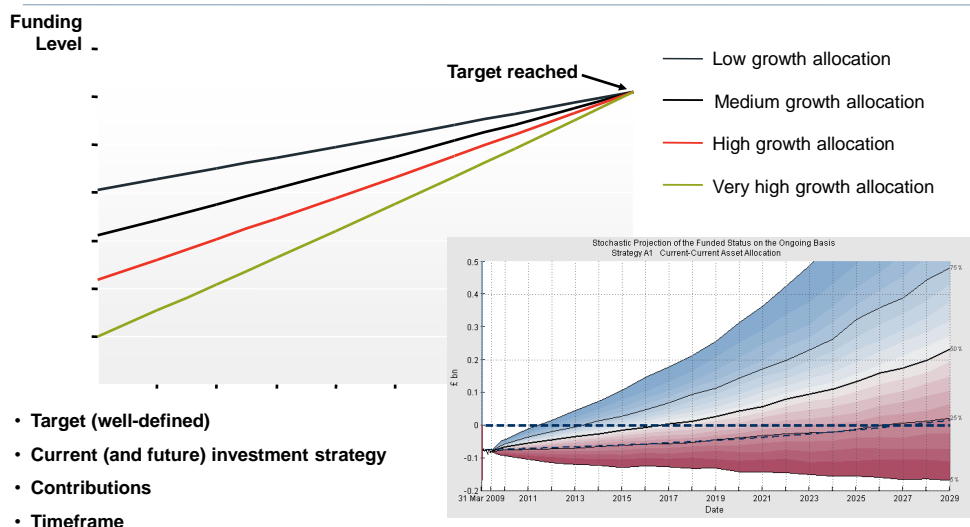
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Risk → Disclosure

- 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

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Flightpaths → Meeting your target



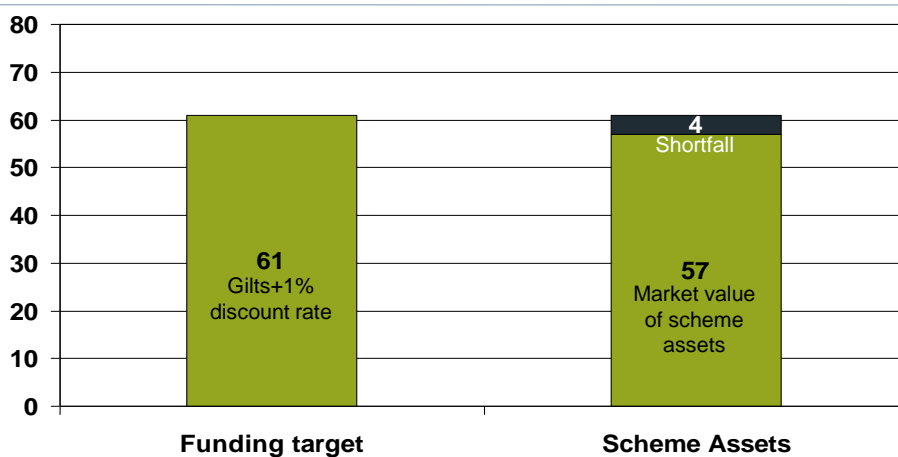
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Example

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

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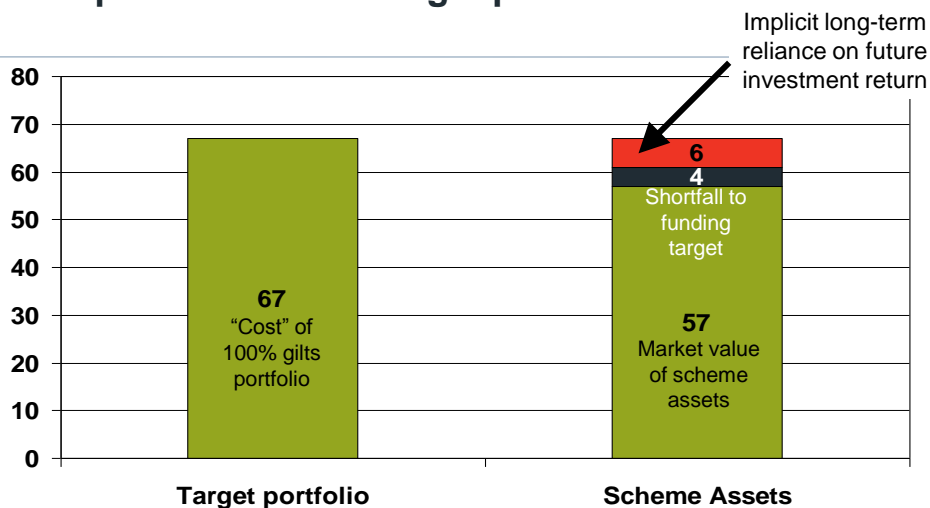
Example: Shortfall to funding target



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

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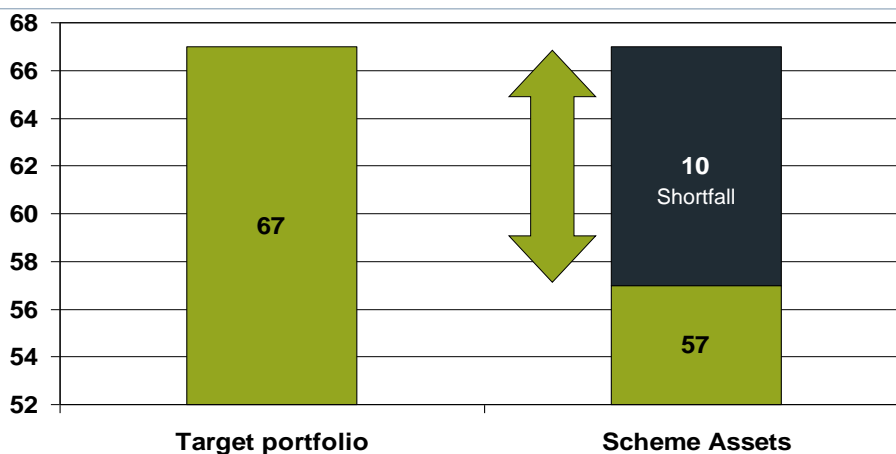
Example: Shortfall to target portfolio



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

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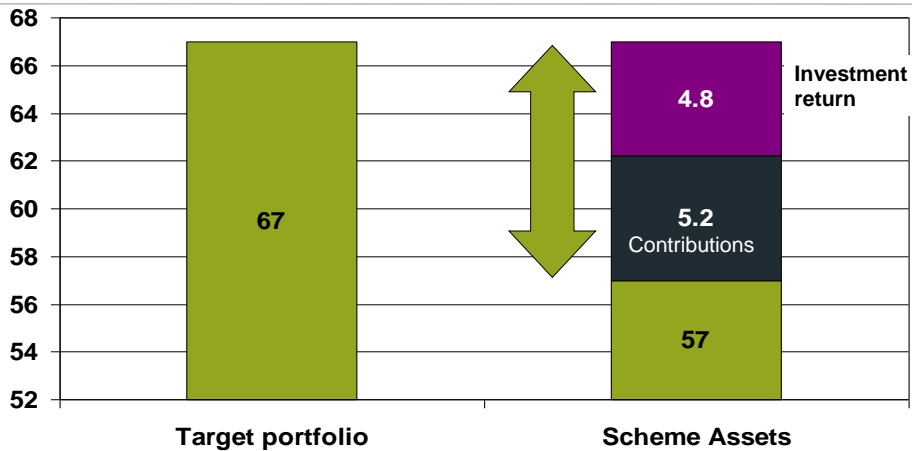
Example: Shortfall to target portfolio



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

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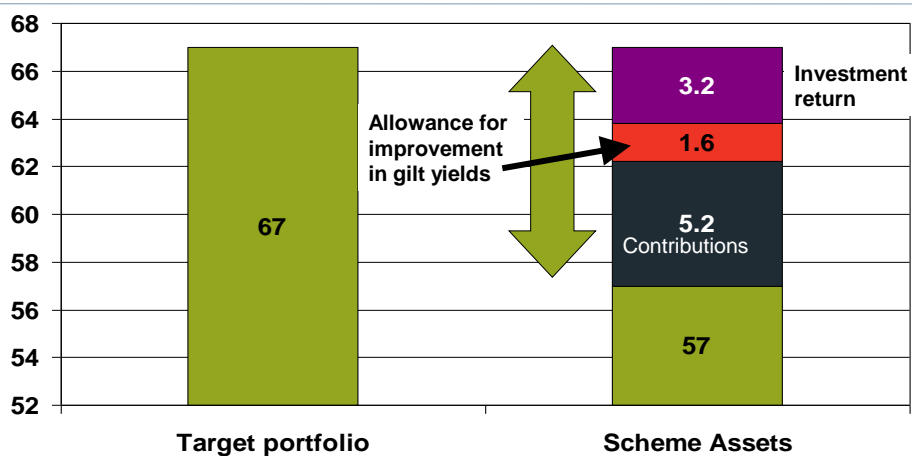
Example: Meeting the shortfall



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

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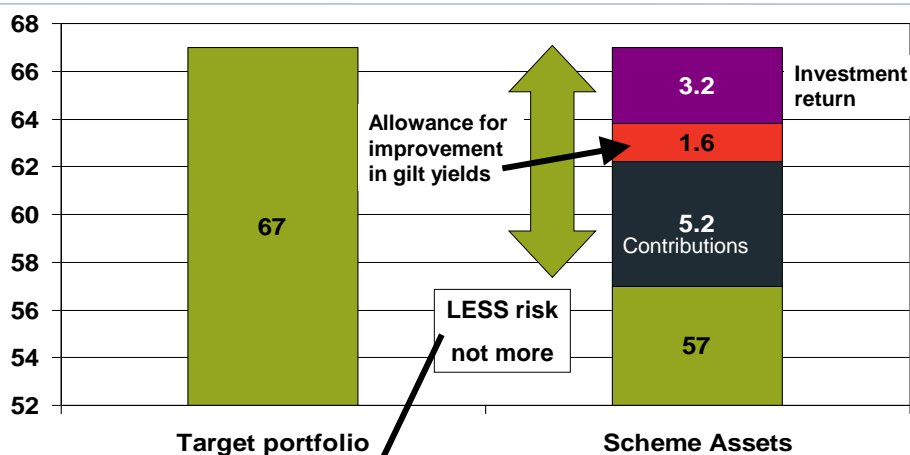
Example: Meeting the shortfall



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

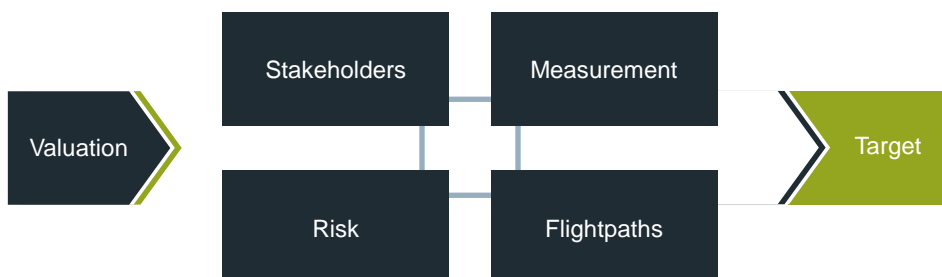
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Example: Meeting the shortfall



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Conclusions



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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.

