The Actuarial Profession
making financial sense of the future

Meeting pension obligation: measurement, risk and high flight paths

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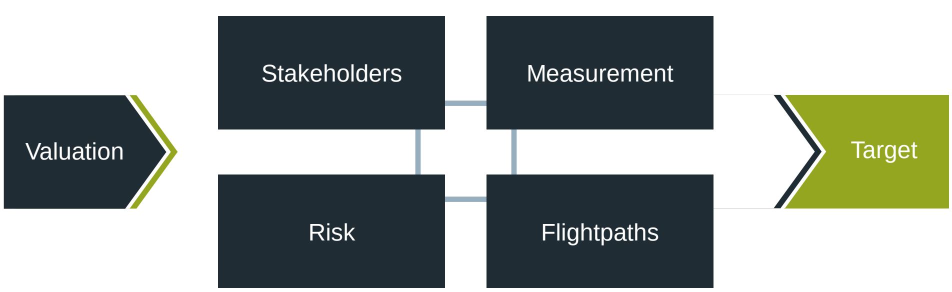
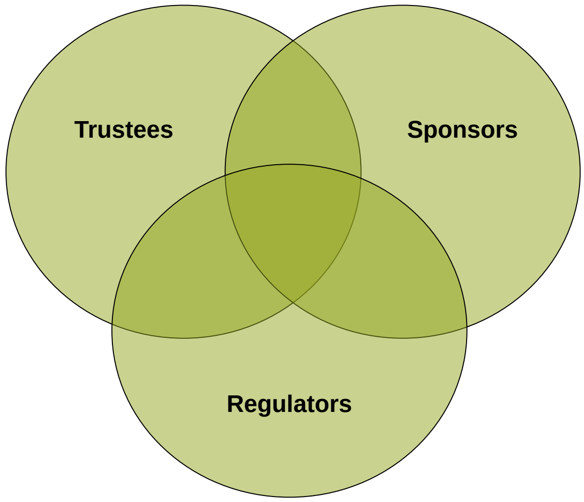
Overview



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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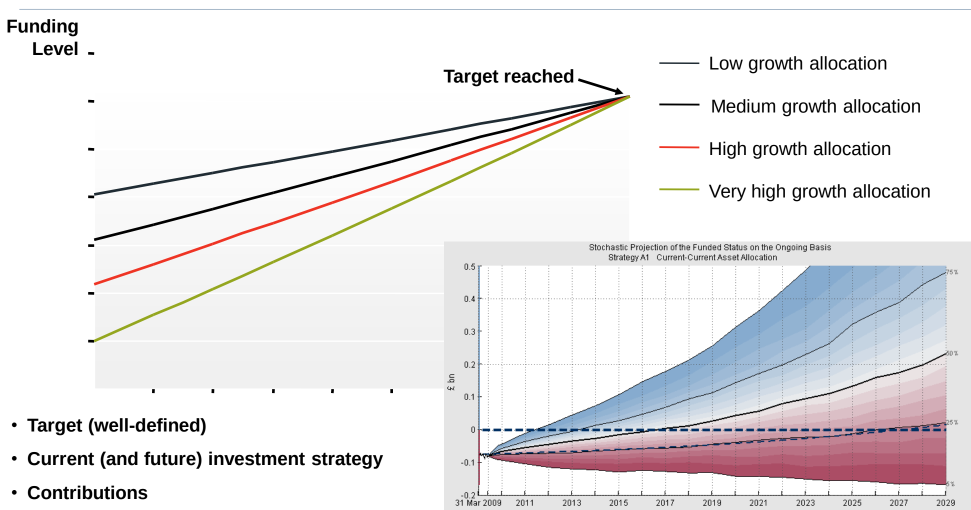
Flightpaths → Meeting your target



- **Target (well-defined)**
- **Current (and future) investment strategy**
- **Contributions**
- **Timeframe**

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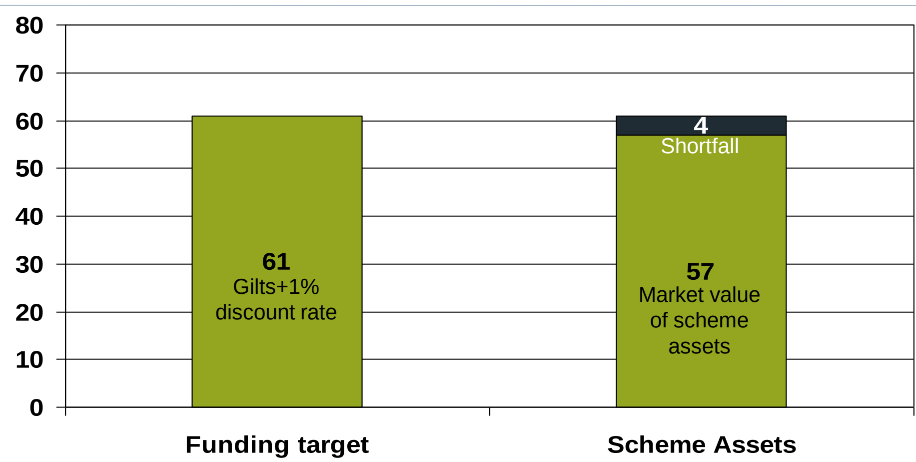
Example

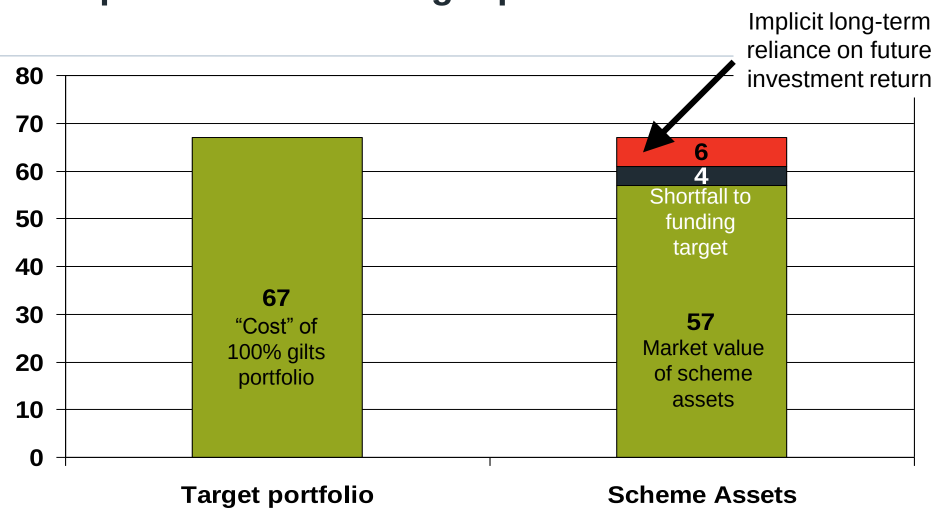
- Payment of 100 due in ten years' time
- Funding basis is gilts + 1%

Example: Shortfall to funding target



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

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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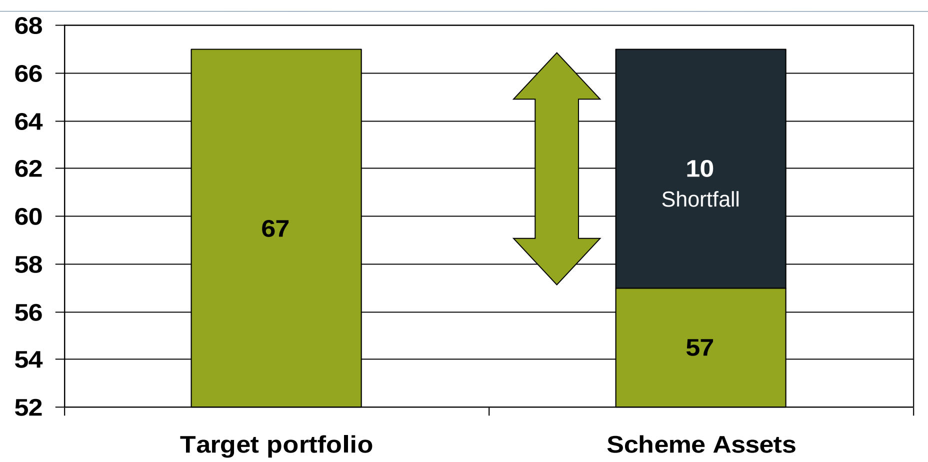
Example: Shortfall to target portfolio



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

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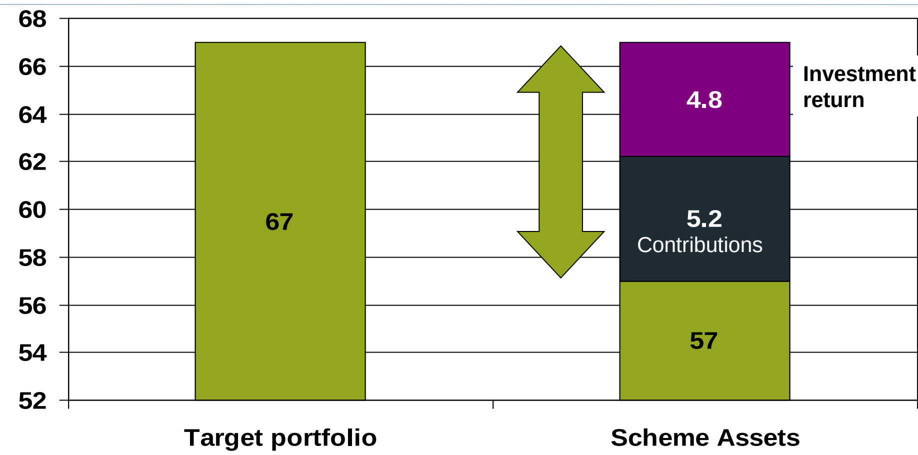
Example: Meeting the shortfall



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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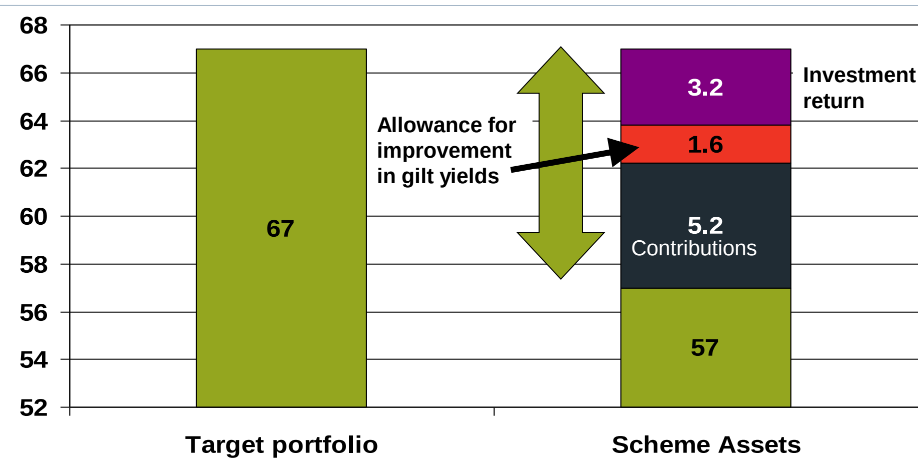
Example: Meeting the shortfall



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

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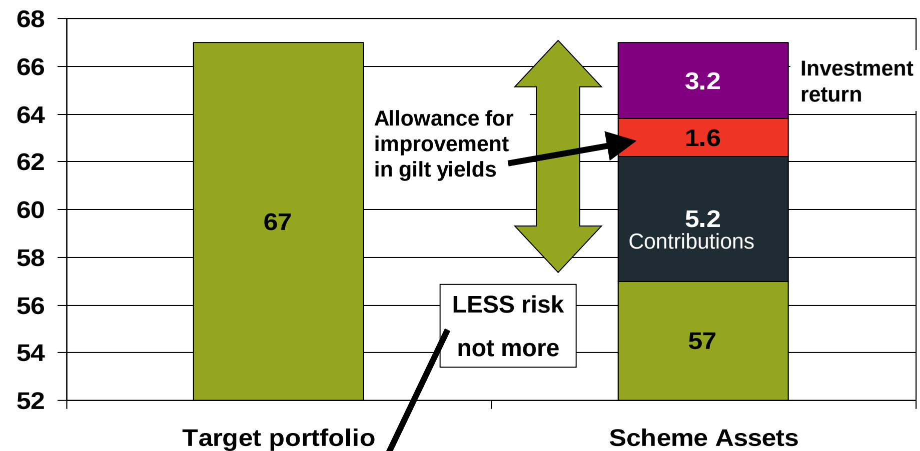
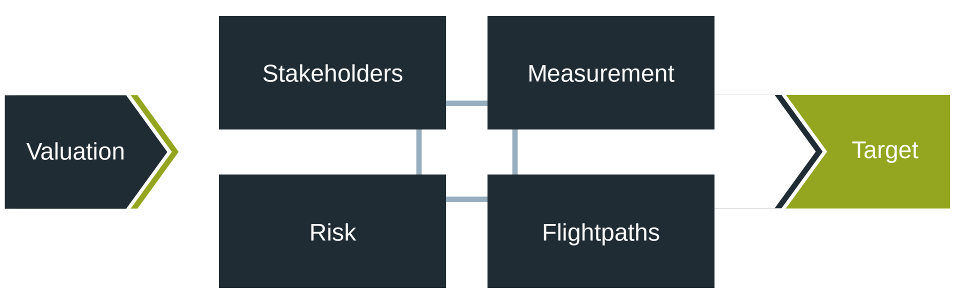
Example: Meeting the shortfall



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

Conclusions



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.