

The role of a Chief Pensions Officer

Chief restructuring officers (CROs) became commonplace during the last economic downturn; CPOs will become commonplace in this one

What does this mean for the actuarial profession?

Please read in conjunction with two articles entitled:

“The Gorilla in the Garden” & “King Kong v RoboCPO”

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LEADER: Richard leads the BDO Pensions Advisory team

PRINCIPAL: Formerly Head of Pensions at Swiss Re from 2007 to 2009, Richard was responsible for creating a new team of broadly based pension specialists to help Swiss Re assess risk transfer opportunities and is FSA CF30 approved

ADVISOR: Led the Pension Corporate Advisor initiative at PwC from 2005 to 2007

REGULATOR: Advised the Pension Protection Fund on its initial risk-based levy and the Pensions Regulator on its original Clearance Guidance rules. This included ground-breaking work on the development of the Employer Covenant, the use of Contingent Assets, the price for obtaining Clearance, and the PPF's innovative 33% stake in restructurings

CEO/CFO: Co-founded two high-profile public to private turnarounds, including the first ever pre-pack, as well three highly successful IPOs

TURNAROUND SPECIALIST: Member of the Institute for Turnaround

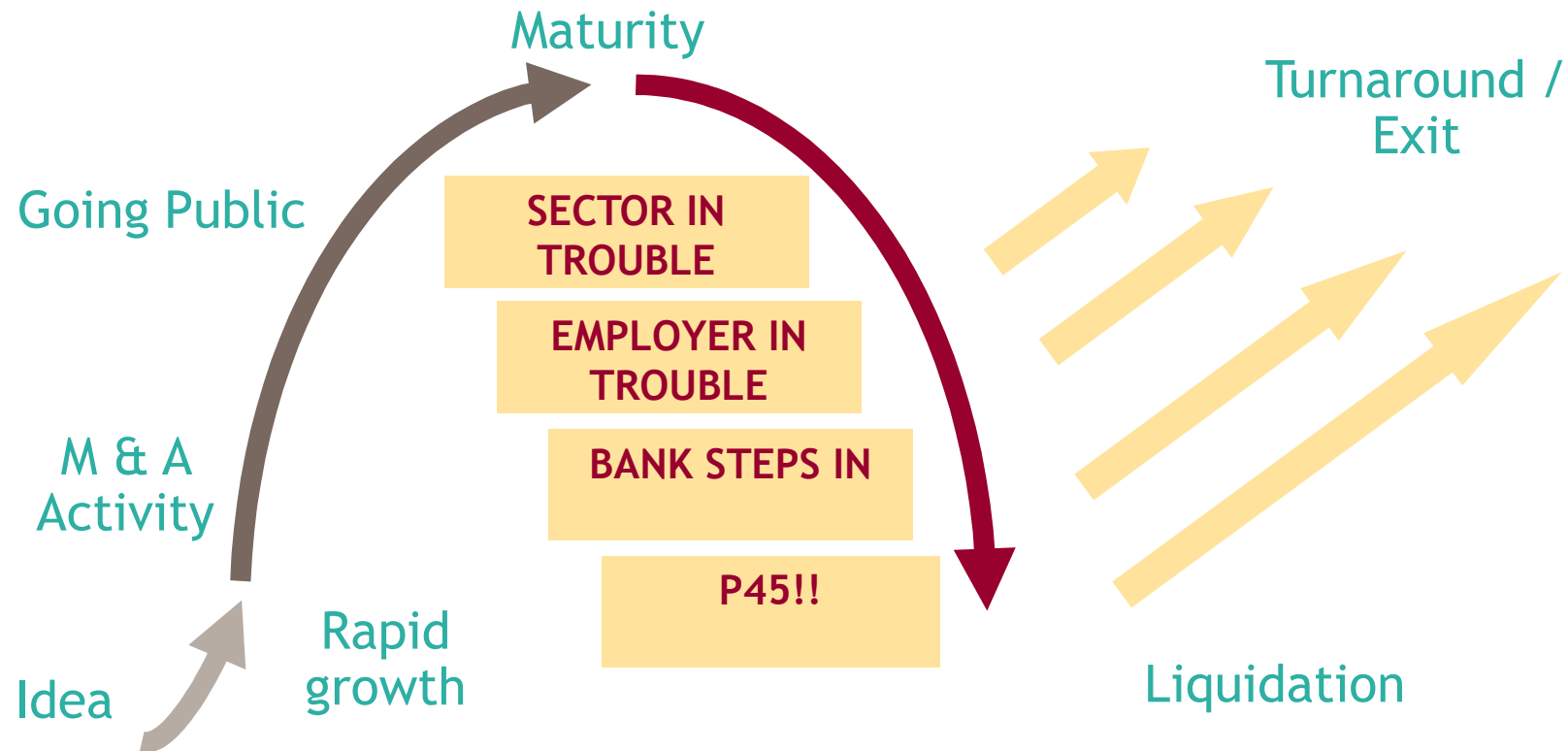
ACCOUNTANT: Fellow of the Institute of Chartered Accountants in England and Wales



AGENDA

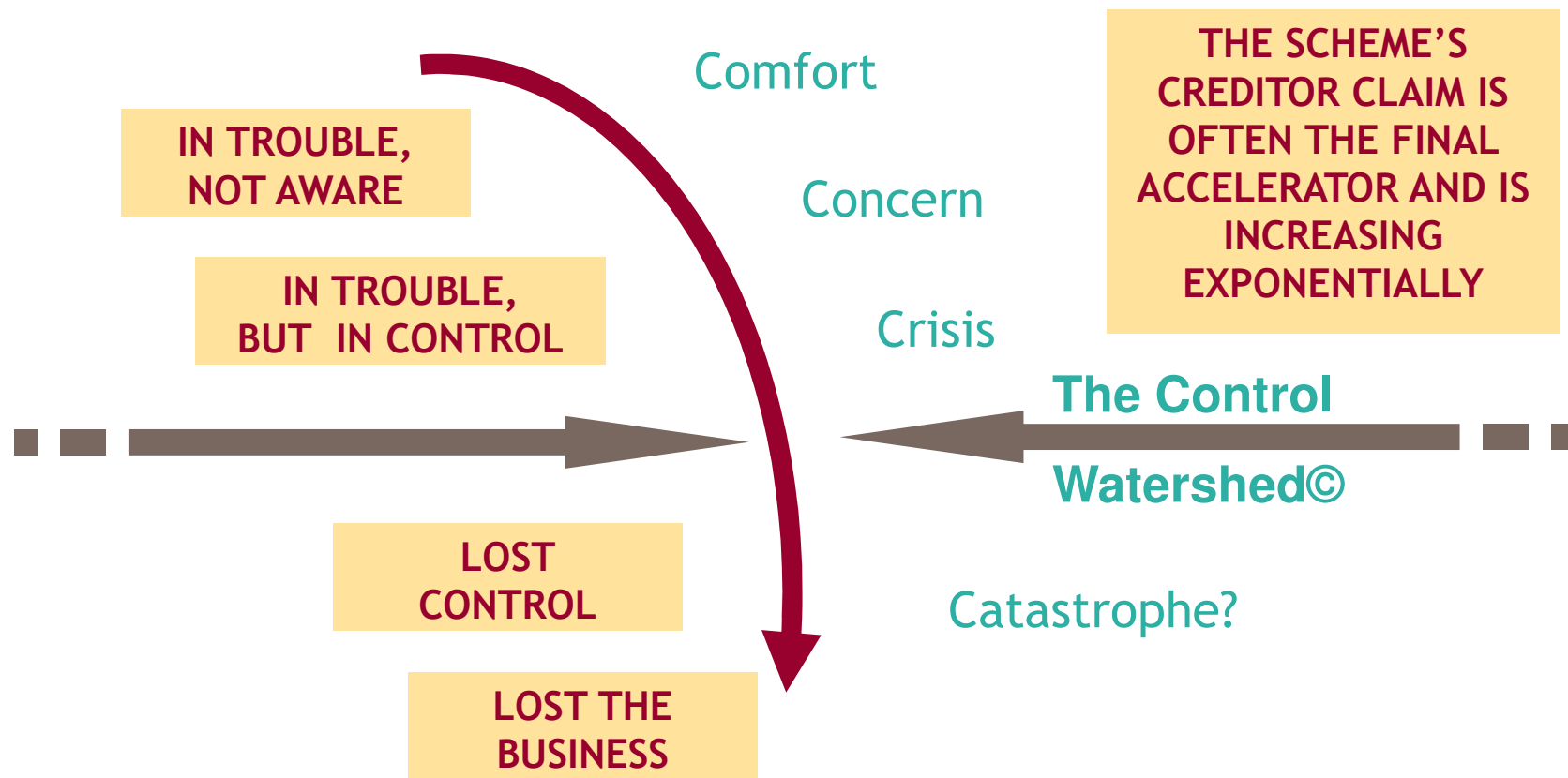
- 1.It's not the longevity of the member that's the issue.....
- 2.The Employer Covenant Demise Curve - our part in its downfall
- 3.So where are our clients in their life cycle?
- 4.Understanding the Employer Family structure
- 5.The relevance of recoveries in insolvency?
- 6.You all know about Scheme risk - and the Funnel of Doubt
- 7.What about an Employer equivalent?
- 8.A clash of two universes
- 9.The case for a Chief Pensions Officer
- 10.Cometh the Hour...Cometh the CPO
- 11.What does it mean for the Actuarial Profession

1. IT'S NOT THE LONGEVITY OF THE MEMBER THAT'S THE ISSUE - IT'S THE LONGEVITY OF THE EMPLOYER



Where are the Scheme's sponsors? Is the Scheme part of the problem?

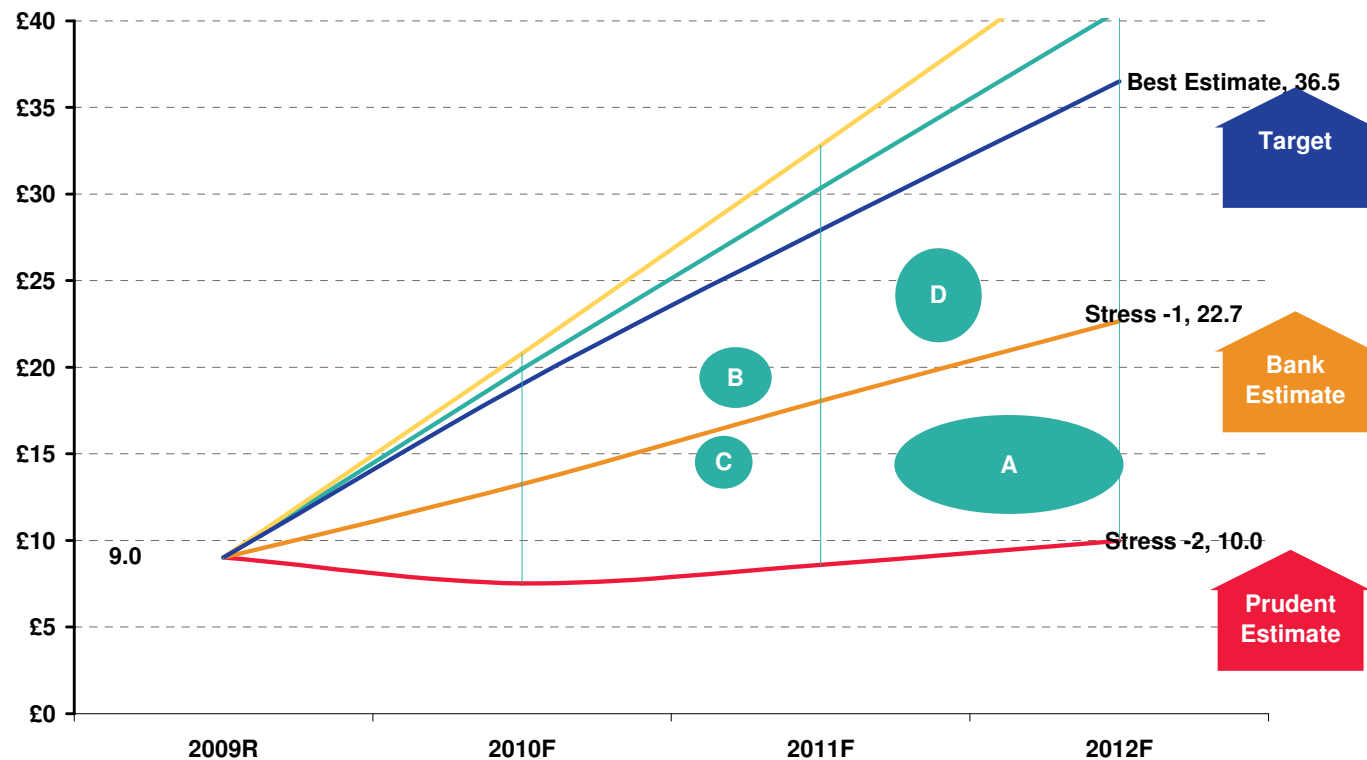
2. THE EMPLOYER COVENANT DEMISE CURVE - OUR PART IN ITS DOWNFALL



Is the Scheme ready and able to exercise control?

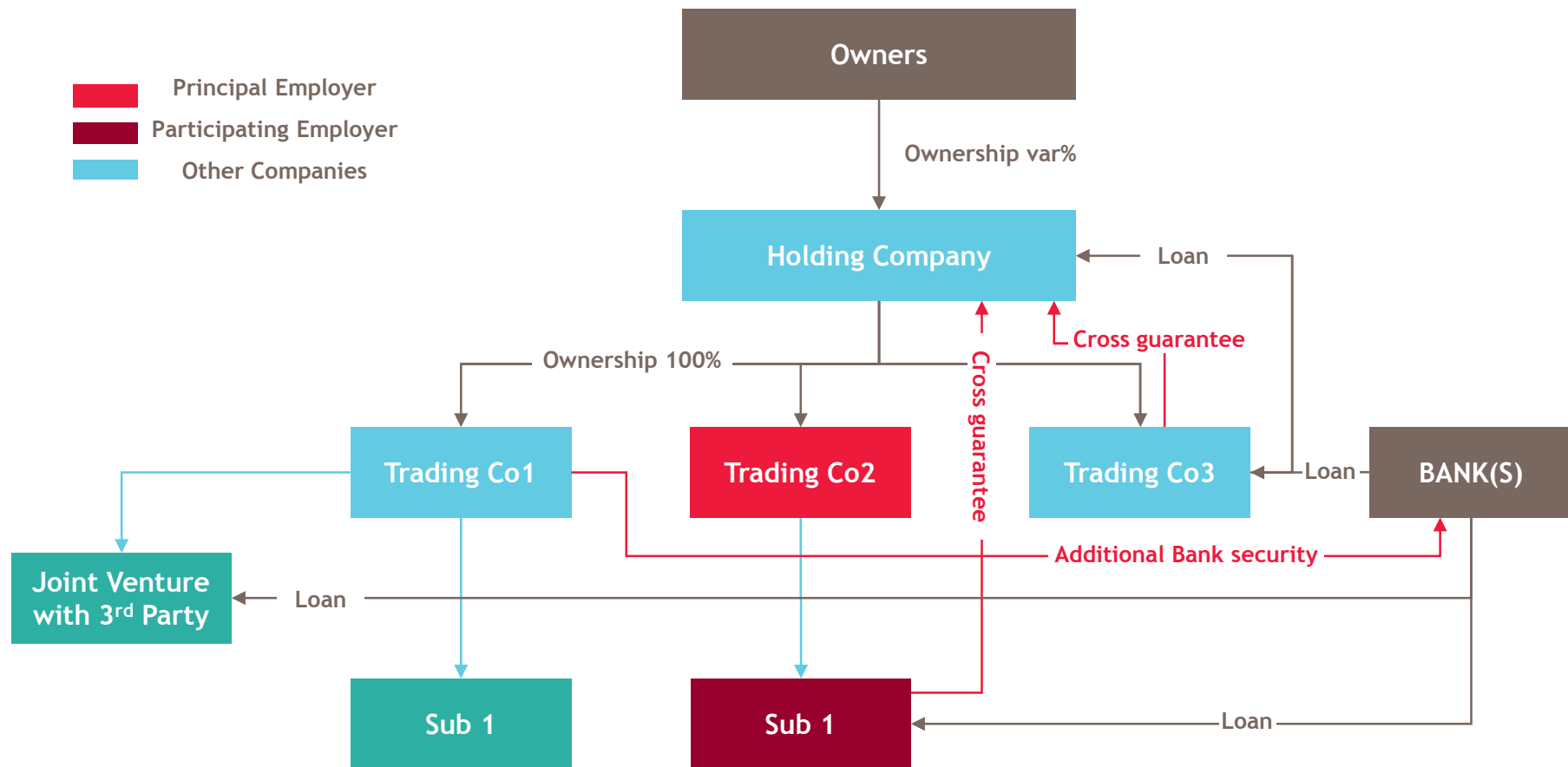
3. SO WHERE ARE OUR CLIENTS IN THEIR LIFE CYCLE?

EBITDA forecast 2010-2012 (£m)



Company may have dreams but Trustees must exercise prudence

4. UNDERSTANDING THE EMPLOYER FAMILY STRUCTURE



You need an entity priority model!

The role of a Chief Pensions Officer

5. THE RELEVANCE OF RECOVERIES IN INSOLVENCY?

Gross asset value
£50m



Gross liability
value £30m



Book value seems OK?

£40m net assets post secured claims
£20m unsecured creditors including scheme
£10m Scheme Funding deficit fully covered

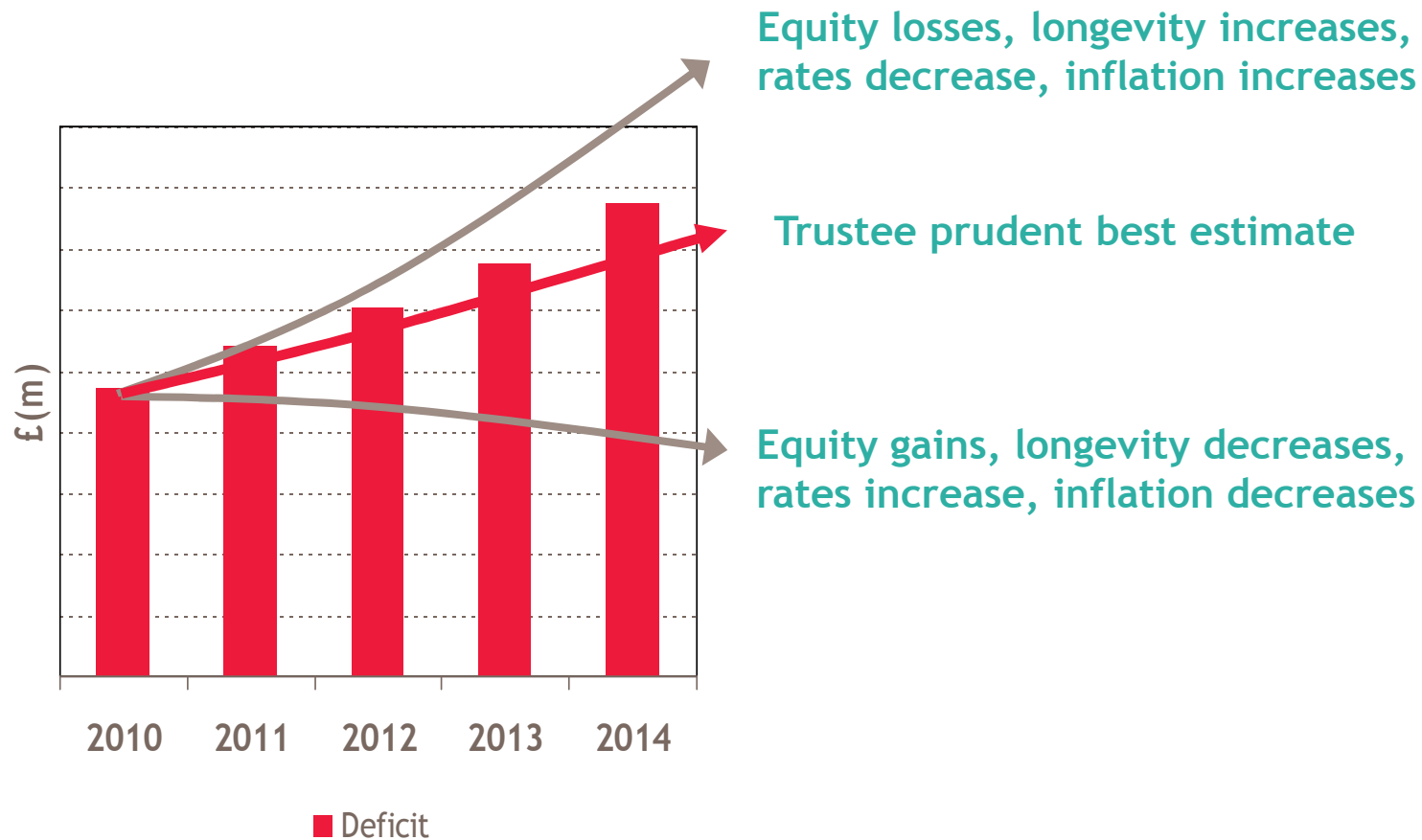
But on insolvency...

£16m available for unsecured creditors
£64m unsecured claims
Dividend 25p in the £

Return to Scheme £12.5m
Shortfall £37.5m (75% under recovery)

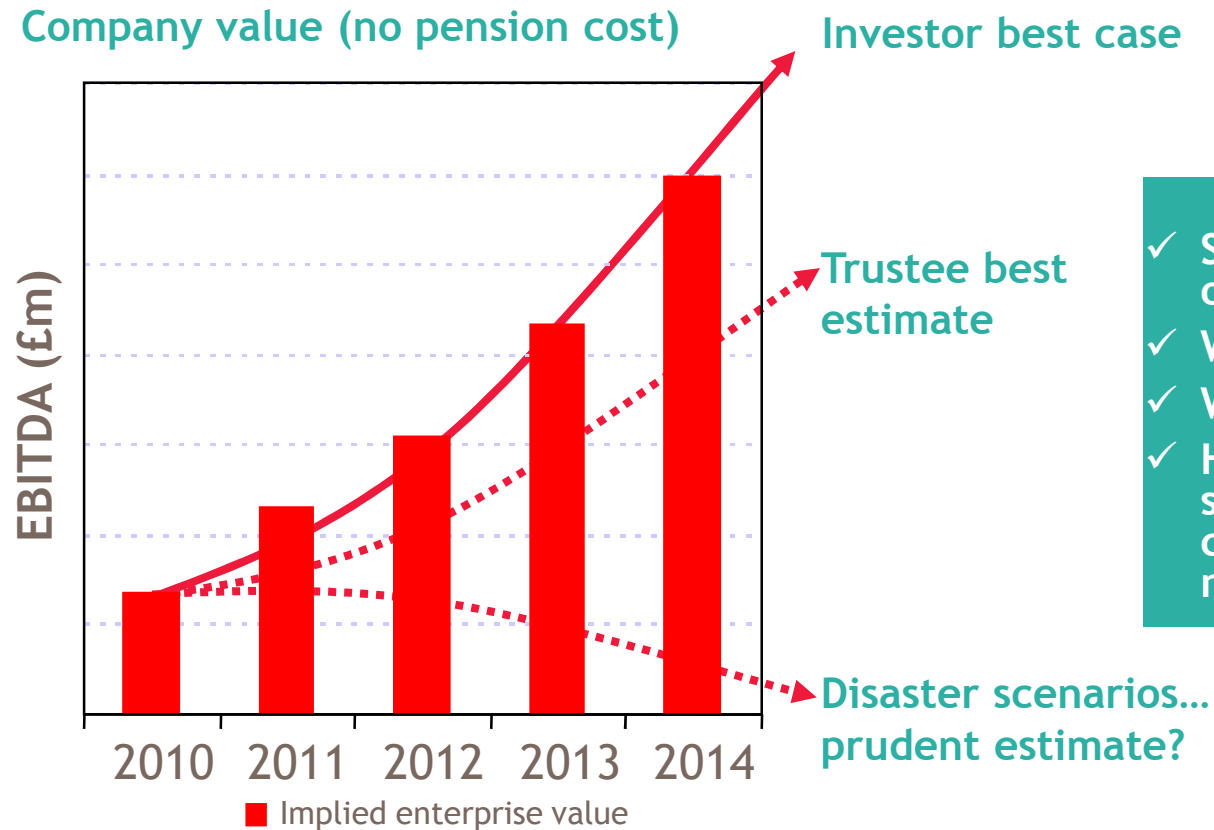
May seem surreal... but this is critical to pre and post scenarios

6. YOU ALL KNOW ABOUT SCHEME RISK - AND THE FUNNEL OF DOUBT



Actuaries can and do model risk/outcomes.....

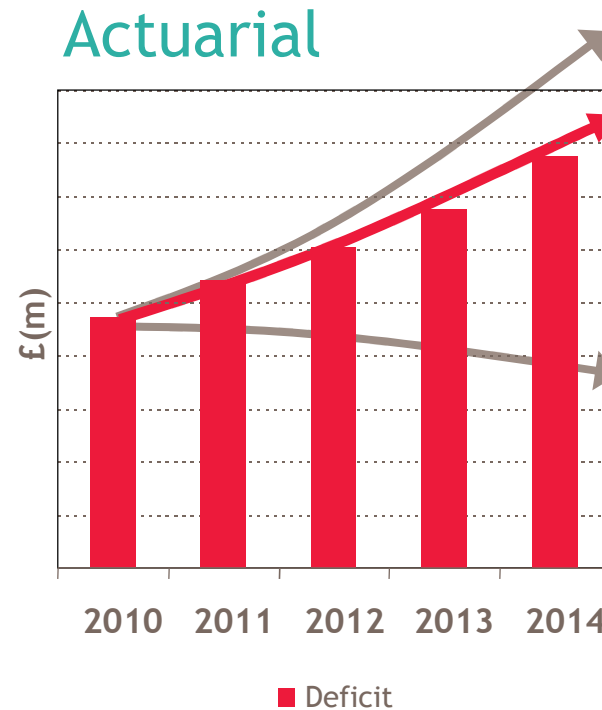
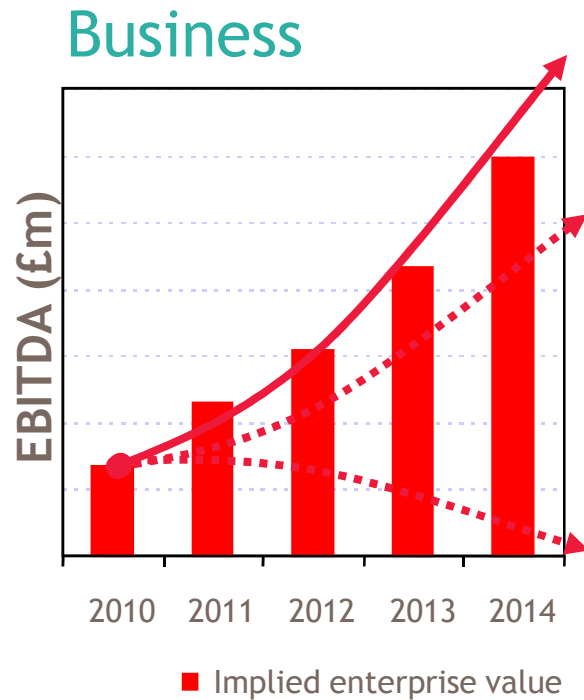
7.WHAT ABOUT AN EMPLOYER EQUIVALENT?



- ✓ Same numbers, different outcomes
- ✓ Which do you chose?
- ✓ Which do you mitigate for?
- ✓ How can different stakeholders make different conclusions from the same numbers?

Now we have a comparison tool...

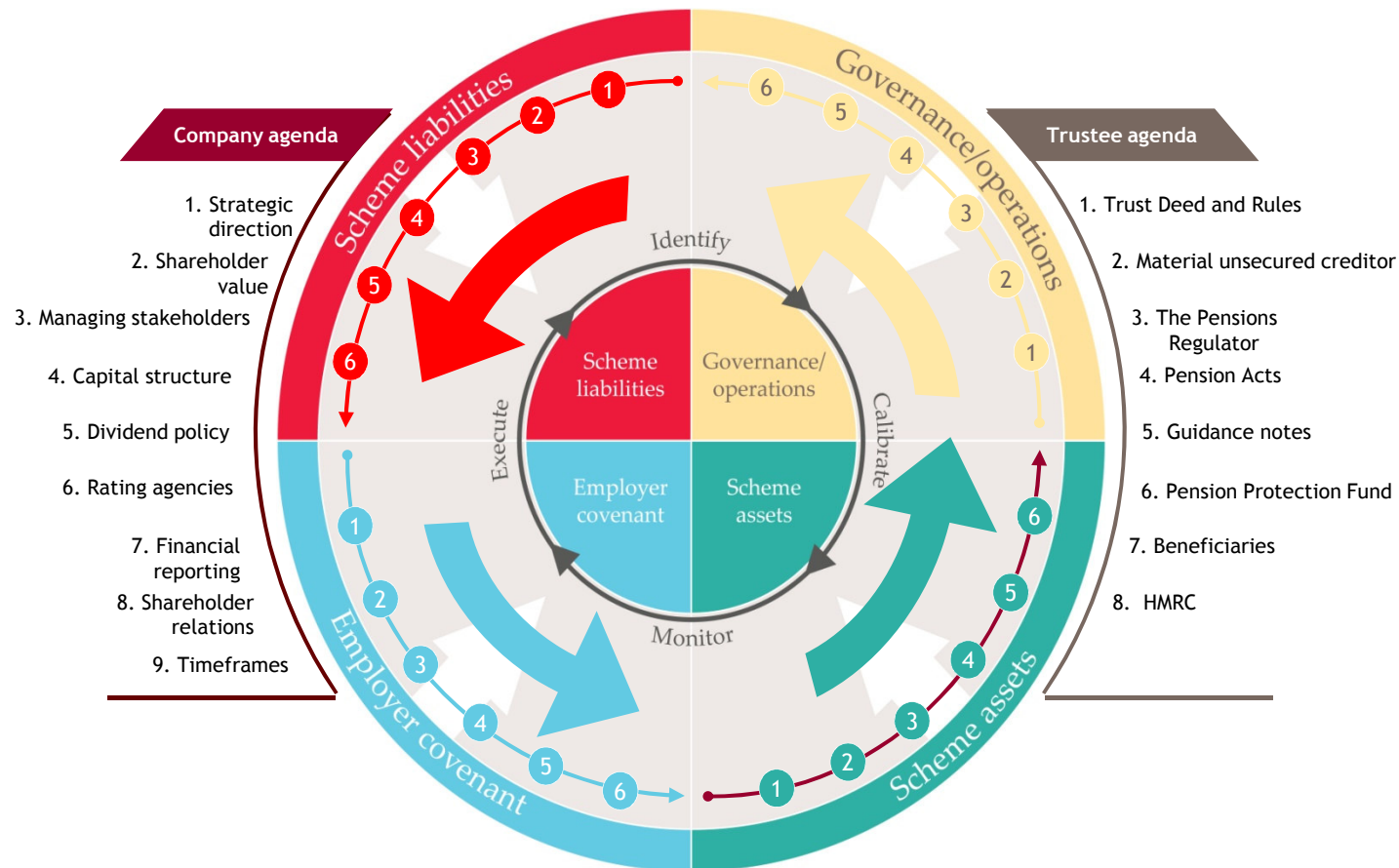
8. A CLASH OF TWO UNIVERSES



Where do the universes collide? Same economics - different skill sets

How do you reconcile them?

9. THE CASE FOR A CHIEF PENSIONS OFFICER



Stakeholders need a joined-up view of inter-related pension risks



10. COMETH THE HOUR..COMETH THE CPO

- What is a Chief Restructuring Officer
- What will the Chief Pensions Officer function be
- This function needs to be able to (inter alia):
 - ✓ Identify pension liabilities in all their forms and how to manage them
 - ✓ Understand capital and insurance markets to deal with de-risking and hedging strategies
 - ✓ Analyse the Employer Covenant and deal with the implications of its strengths and weaknesses
 - ✓ Manage the Regulatory and Governance issues to find the appropriate compromise
 - ✓ Have people and negotiating skills to deal with different agendas all the way from banks to boardrooms, trustees to trade unions
- The CPO needs a clear understanding of the issues of both business and trustees so that the pension solution can be aligned with their agendas and goals



10. WHAT DOES IT MEAN FOR THE ACTUARIAL PROFESSION

- Recognise the need to incorporate a wider skill set into the training programme...and exams!
- Encourage members to take MBAs and equivalent (sorry...more exams!)
- Encourage multi-secondments to corporate risk departments, banks, corporate finance and restructuring departments
- Offer secondments to other professionals to work alongside you
- Give credit for other qualifications in the overall actuarial exam timetable
- Create formal and informal alliances with other professional advisers to ensure a seamless service to your clients

If you don't do this, you will run the risk of becoming merely a technical support function to other providers who will fill the vacuum

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