

Wharton Pension Research Council Conference

25 – 26 April 2013

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Background Questions Resilience, Solvency, and Tail Risk

Resilience

Can defined benefit plans survive another crisis?

Can defined benefit plans survive even absent a crisis?

What are the options if DB plans don't survive?

Background Questions Resilience, Solvency, and Tail Risk

Solvency

Will defined benefit plans remain solvent?

What is the contingency plan if they don't?

What is the role of regulation in maintaining solvency?

Background Questions Resilience, Solvency, and Tail Risk

Tail Risk

What are the tail risks most DB plans are worried about?

What tail risks should they be worried about?

What does tail risk mean for Defined Contribution?

Paper 1: Extreme Risks, the Irreversibility of Time, and the Retirement Anomaly (Tim Hodgson)

Two sets of worries: extreme risks and sustainability

Extreme risk to the pension system (and mankind)

- People don't worry about these enough
 - Can they be planned for and if so how?
 - Should they be planned for?
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Sustainability of the pension system

- “Retirement as currently configured was never affordable, but this fact was hidden by demographic and debt trends over many decades”
- Recovering from extreme shock/time is linear
- Investors need to lower expectations – but then what?

Paper 2: Evolving Roles for Regulators in the Pension Arena (E. Philip Davis)

Evolution in regulation toward risk, transparency and governance

- Asset-liability management
 - Stress testing
 - Risk scoring
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Important risks are still not being address by regulation

- Longevity risk
 - Pro-cyclicality of investment behavior and funding rules
 - Financial education, especially with the shift from DB to DC
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Some regulation may be counter-productive, driving long-term pension plans to make short-term investment decisions

- Value-at-risk requirements
- Solvency/funding requirements that become onerous in a crisis

Paper 3: Developments in European Pension Regulation – Risks & Challenges (Stefan Lundbergh, Ruben Laros, Laura Rebel)

Three pillars: government, private, individuals

Range of different models across countries for providing secure retirement

Need for more uniform regulation in Europe to develop a single labor market

“Regulatory Solvency” versus “Economic Solvency”

In Europe, “an end of traditional DB” because the “underlying design was not sustainable”

Sustainability of the current DB system

Trend toward risk transfer from sponsors to beneficiaries

What is the right role of regulation?

Further questions



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