



FINDING THE RIGHT MEASURE FOR PENSION LIABILITIES

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WHAT WE SHOULD KNOW ABOUT A PENSION LIABILITY?

How well funded is the plan?

How big is the deficit?

How much risk is being taken?

(asset allocation and 95th percentile stress)

Can the sponsor handle the risk?

WHAT MAKES A GOOD MEASURE?

Does it encourage prudent risk management?

Does it discourage prudent risk taking?



WHAT WE SHOULD KNOW ABOUT A PENSION LIABILITY?

	GAAP		MARK-TO-MARKET	SOLVENCY 2	HBS (HOLISTIC BALANCE SHEET)
	Balance Sheet	Income Statement			
How well funded is the plan?					
How big is the deficit?					
How much risk is being taken? (asset allocation and 95 th percentile stress)					
Can the sponsor handle risk?					
Encourage prudent risk mgmt.?					
Discourage prudent risk taking?	—	—	—		



WHAT IS THE RIGHT MEASURE FOR PENSION LIABILITIES?

GAAP

**MARK-TO-
MARKET**

SOLVENCY 2

HBS
(HOLISTIC BALANCE SHEET)

Something else?



WHAT MIGHT THAT "SOMETHING ELSE" BE?

	HBS (HOLISTIC BALANCE SHEET)	Something else?	
Liability measure	Stressed	Best estimate	HBS may discourage prudent risk taking.
Discount method	Market consistent	Corporate bond curve	To encourage prudent risk taking, we need to value liabilities on a corporate bond curve, and use a best estimate liability.
Funded status disclosure	Market value of assets over stressed liability	Market value of assets over best estimate liability	
Asset allocation disclosure	Required	Required	
Stressed scenario disclosure	—	Market value of assets over stressed liability	Disclosure of stress scenarios and recovery plans should be mandatory
Disclosure of potential losses	—	Required	
Disclosure of recovery plan if losses occur	—	Required	
Risk-based levy	U.K. has a risk-based levy	Risk-based levy required everywhere	A risk-based levy creates a real cost for bad actors.

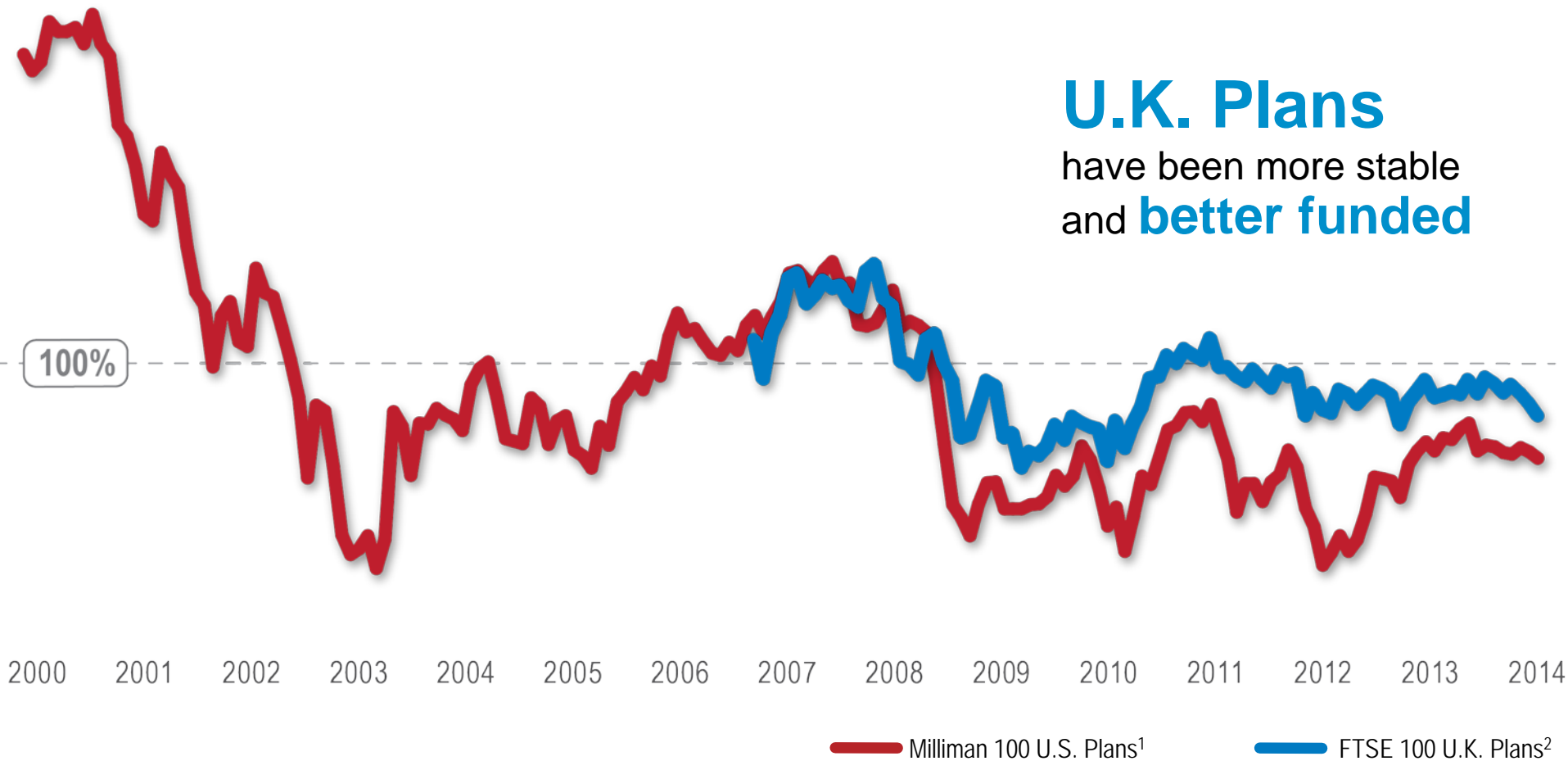


HOW DO WE KNOW THIS WOULD WORK?

It's Similar to What They Do in the U.K.

U.K. Plans

have been more stable
and **better funded**



¹Source: Milliman 100 Pension Funding Index; the 100 largest U.S. corporate pension plans, YE 2014.

²Source: Aon Hewitt, "Aon Hewitt Global Pension Risk Tracker," as of September 7, 2014. <https://rfmtools.hewitt.com/PensionRiskTracker>. Funding ratio (cumulative assets/liabilities) of all pension schemes in the FTSE 100 index on the accounting basis.



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