



# Understanding The Risks of Your DB Plan

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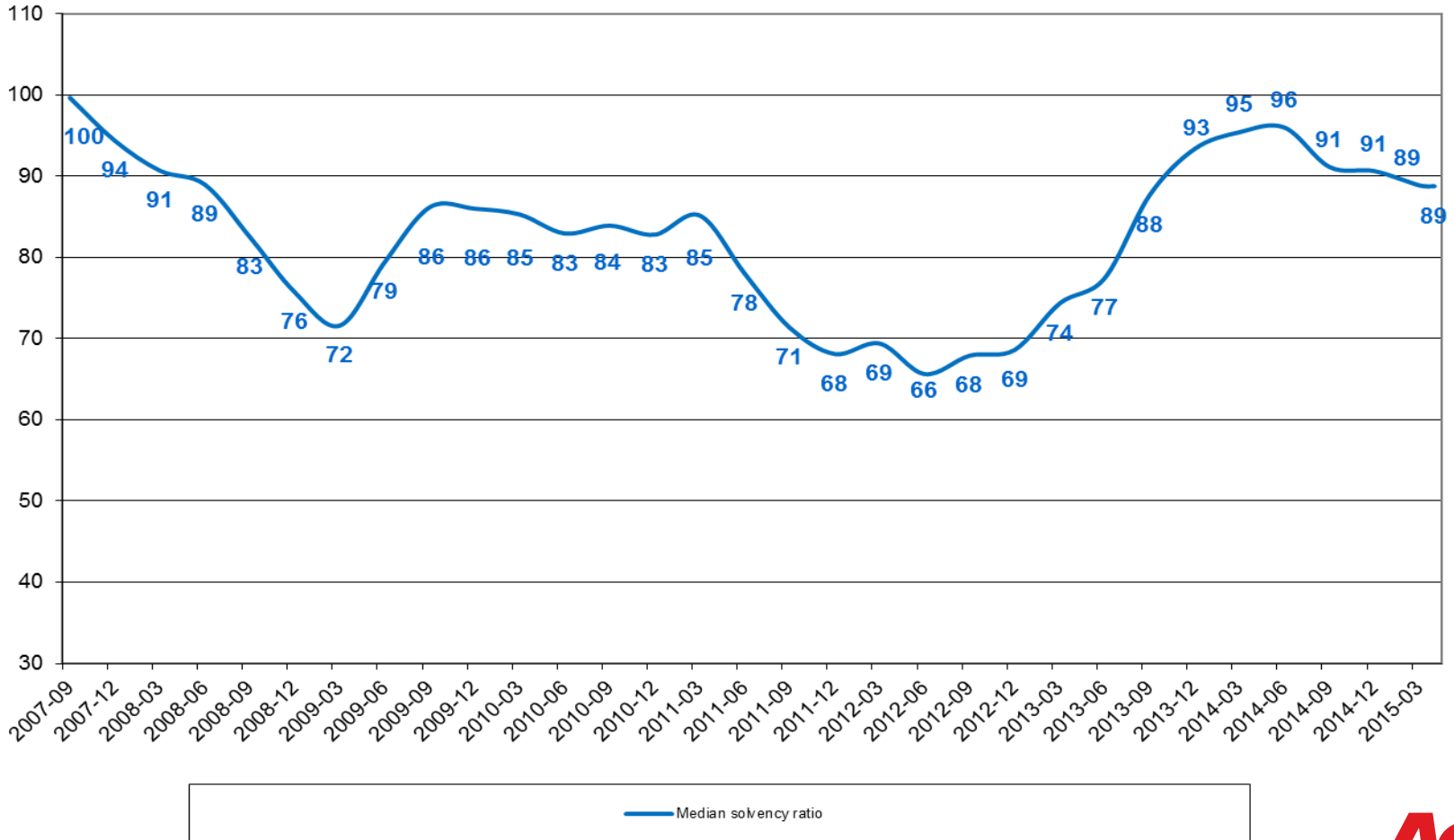
# What is Risk?

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- Dictionary **Definition** of Risk
  - The possibility that something bad or unpleasant (such as an injury or a loss) will happen
- Pension plans can **experience a loss** in two ways
  - Plan assets decrease without a corresponding decrease in liabilities
  - Plan liabilities increase without a corresponding increase in assets
- Risks evidence themselves through **volatility**
  - Filtered by rules governing cost recognition (funding and accounting rules)
- Most, if not all risks can be **hedged** or eliminated
  - Hedging often comes at a cost
  - Hedging one risk may create another
- Definition of risk **varies by organization**

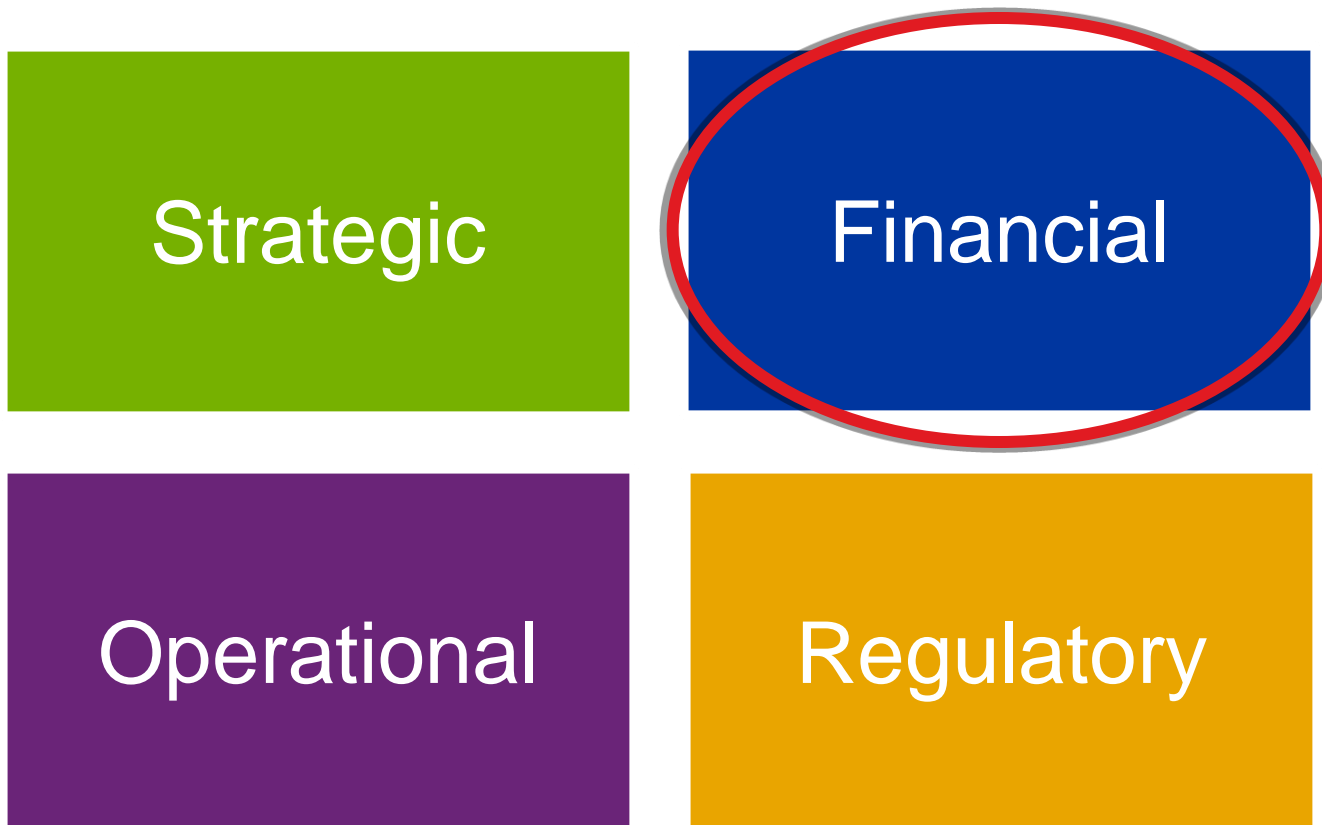
# Pension Volatility Has Been High

## Median Solvency Ratio

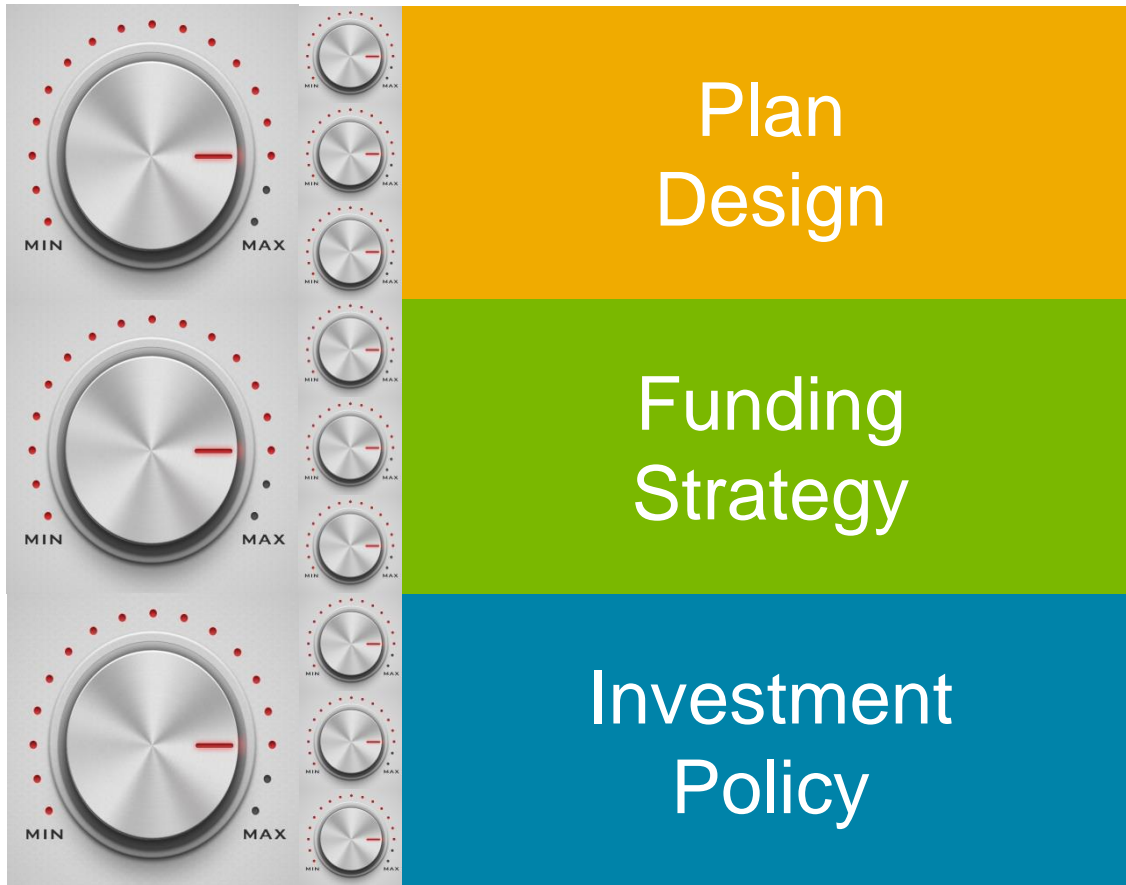


# What Are the Risks for the Plan Sponsor?

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# Pension Risk Management



# Investment Policy Risk

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Identify Risk



Identify Stakeholders



Measure Risk



Manage and Control

- **Identify Risk**

- The risk that contributions will be highly volatile or will reach unsustainable levels in the future

- **Identify Stakeholders**

- Plan Sponsors and participants are impacted by volatile cash requirements
  - Potential for increased amount of contributions for both parties or benefit reduction

- **Measure Risk**

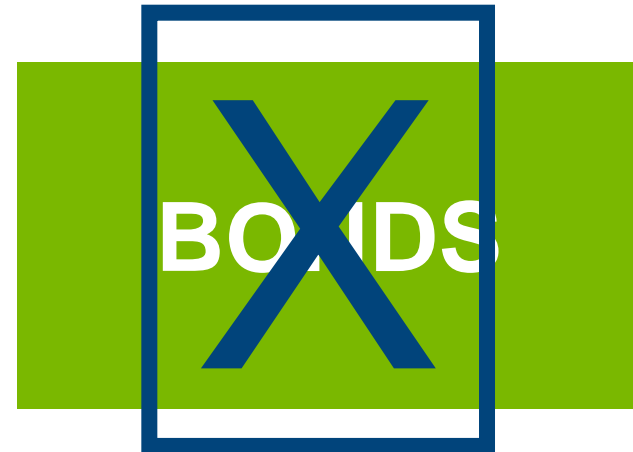
- Assumptions: demographic, plan design, funding and capital market
- Stochastic projections of the funded position and contributions
- Stress testing and sensitivity analysis

- **Manage and Control**

- Assess impact on risk of asset mix changes
- Glide paths and/or hedge paths
- Ongoing monitoring is key

# Pension Risk Management in an Asset-Liability Context

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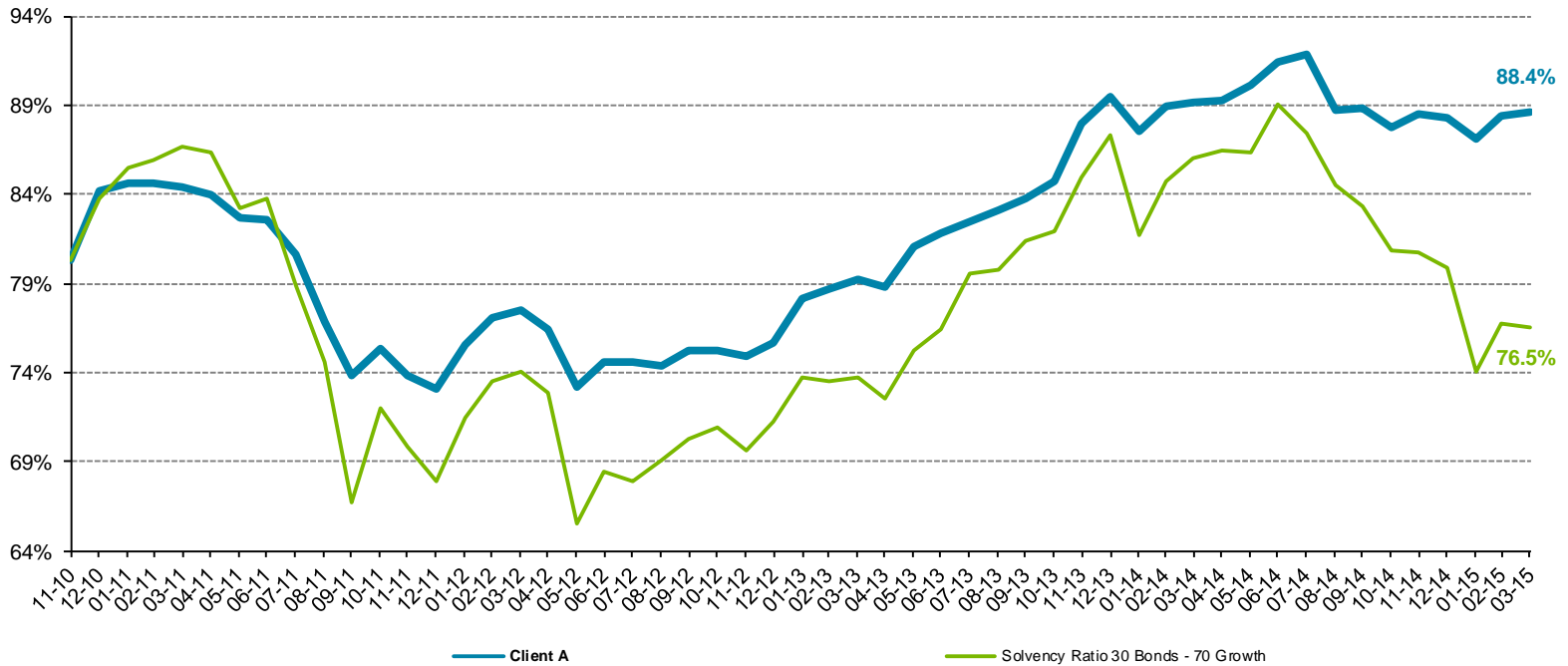


**Growth  
Component (GC)**

**Liability  
Matching  
Component  
(LMC)**

# Value Added of De-Risking Strategy and OCIO Model

Solvency Ratio Evolution



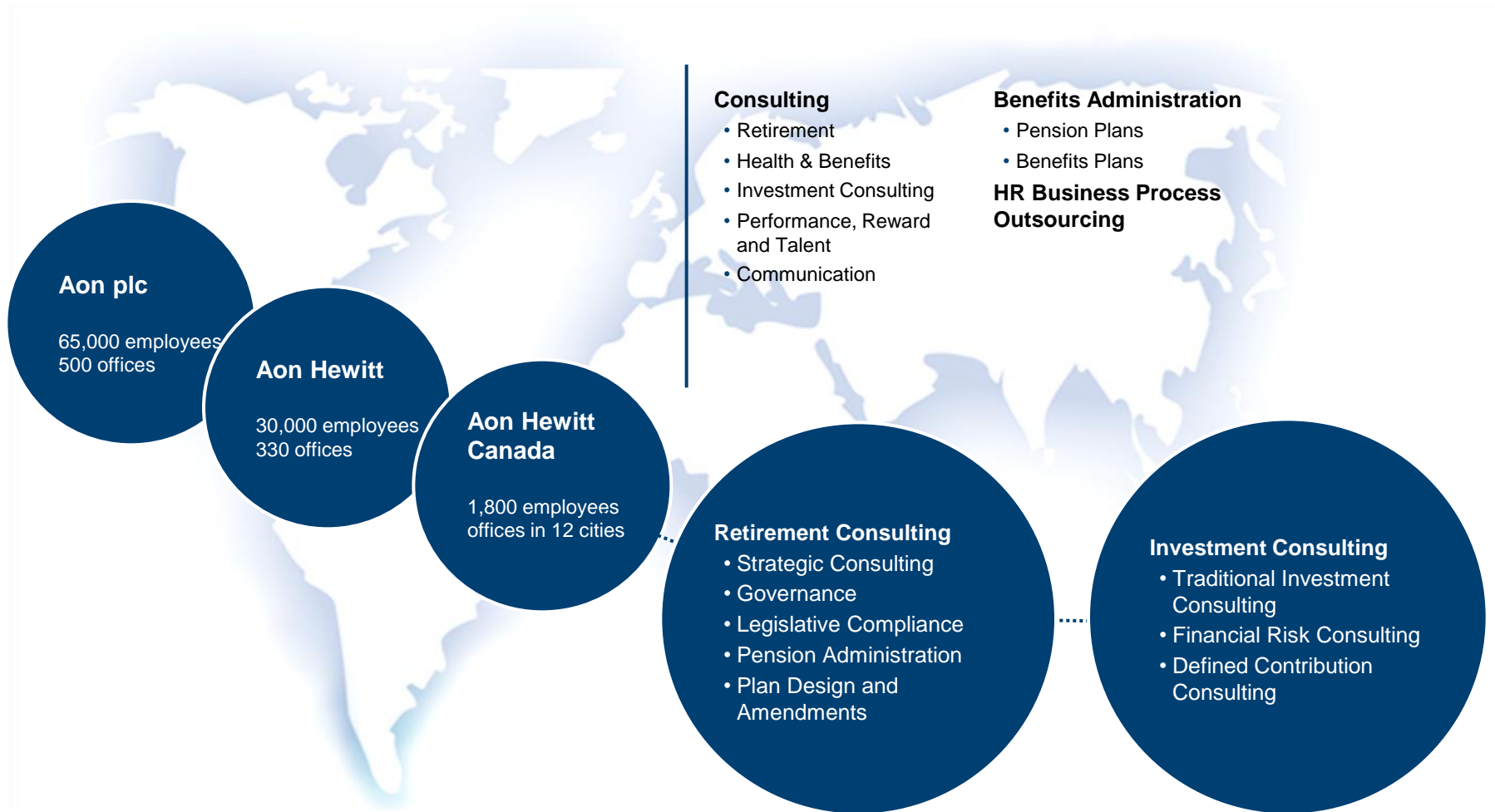


# Key Takeaways

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- Understand the **various risks** that impact your pension plan
  - Plan design
  - Funding policy
  - Investment policy
- **Asset-Liability analysis** can help plan sponsors quantify these risks and provides a tool for decision making
- **De-risking strategies** such as glide paths have been especially successful for frozen or closed plans subject to solvency funding
- For a **going-concern plan**, these strategies do not provide the same risk mitigation
  - For plans driven by going-concern, de-risking will increase funding requirements
  - Greater focus on diversification of asset classes and good governance may be appropriate
- An **Outsourced CIO model** (whereby the execution of a Plan's SIPP is handled by a third-party) can help reduce risk, improve governance and reduce cost

# Who We Are – Breadth of Services



# Who We Are – Experienced Consulting Team

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- More than 420 CAP plans

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- 85 consultants
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- Over 650 clients

# Contact Info

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