

# MERCER

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## DB pensions

Helping sponsors become a 'risk-intelligent enterprise'

Dave Robertson, Mercer

[www.mercer.com](http://www.mercer.com)

## Unprecedented times

CBI calls for easier credit as job cuts grow  
09.02.09

World economy in severe recession, IMF says  
22.04.09

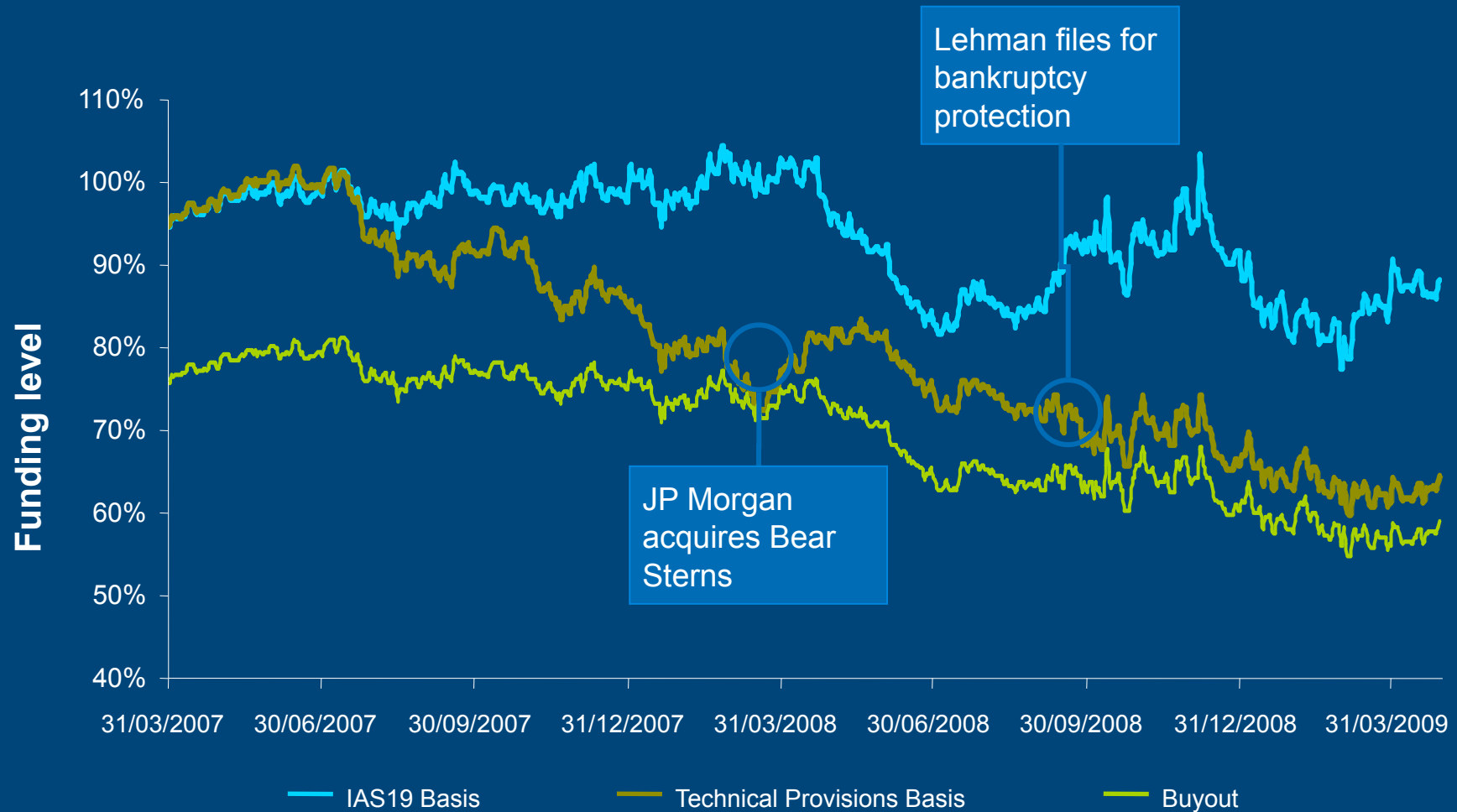
Worst of the recession may be past, but no recovery until spring 2010  
CBI 20.04.09

Global confidence crisis pushes UK deeper into recession  
CBI 16.02.09

Over-reacting to pension debts could deepen recession  
CBI 19.01.09

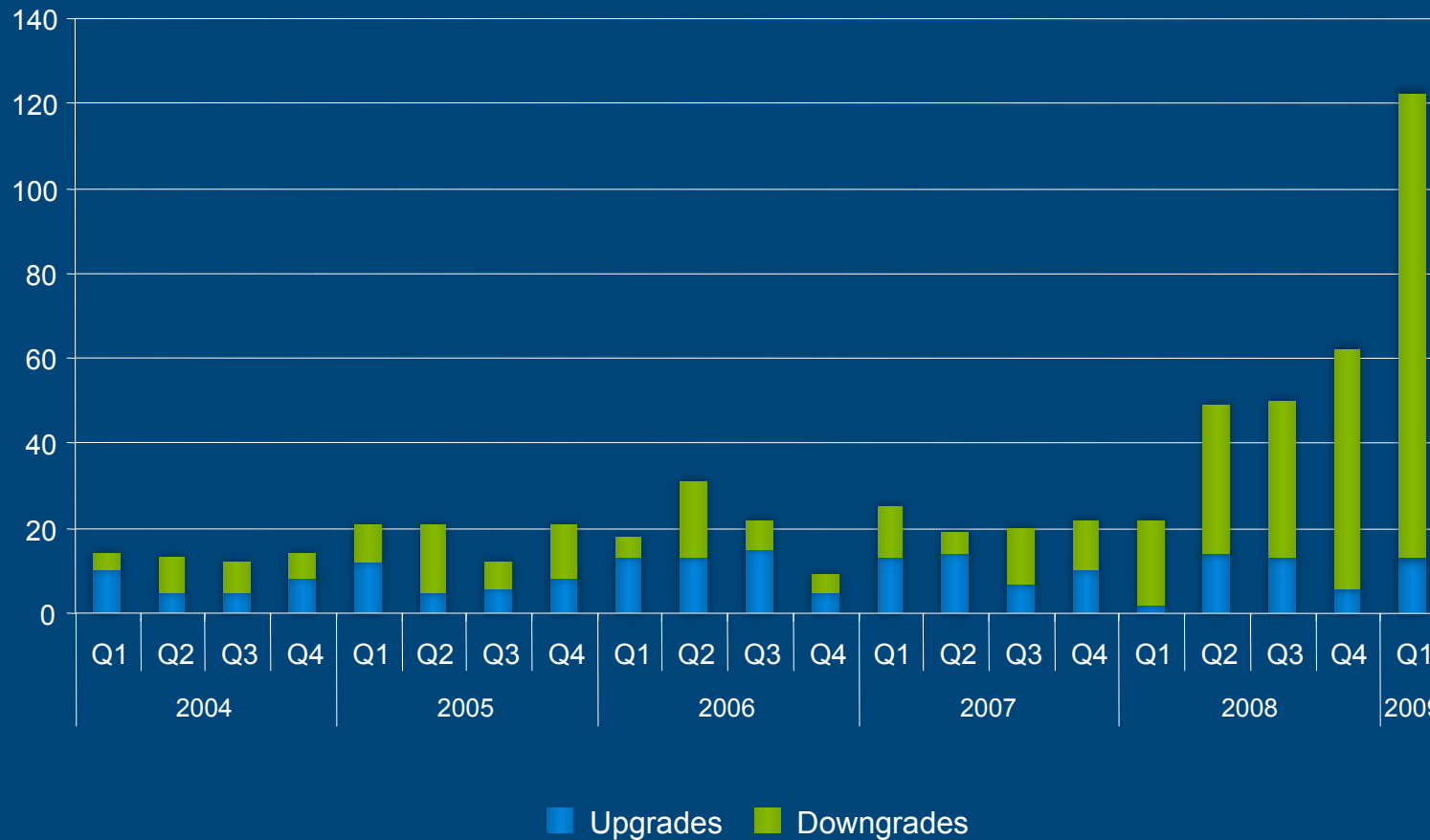
World trade volumes to contract in 2009  
CBI 28.01.09

# Funding volatility



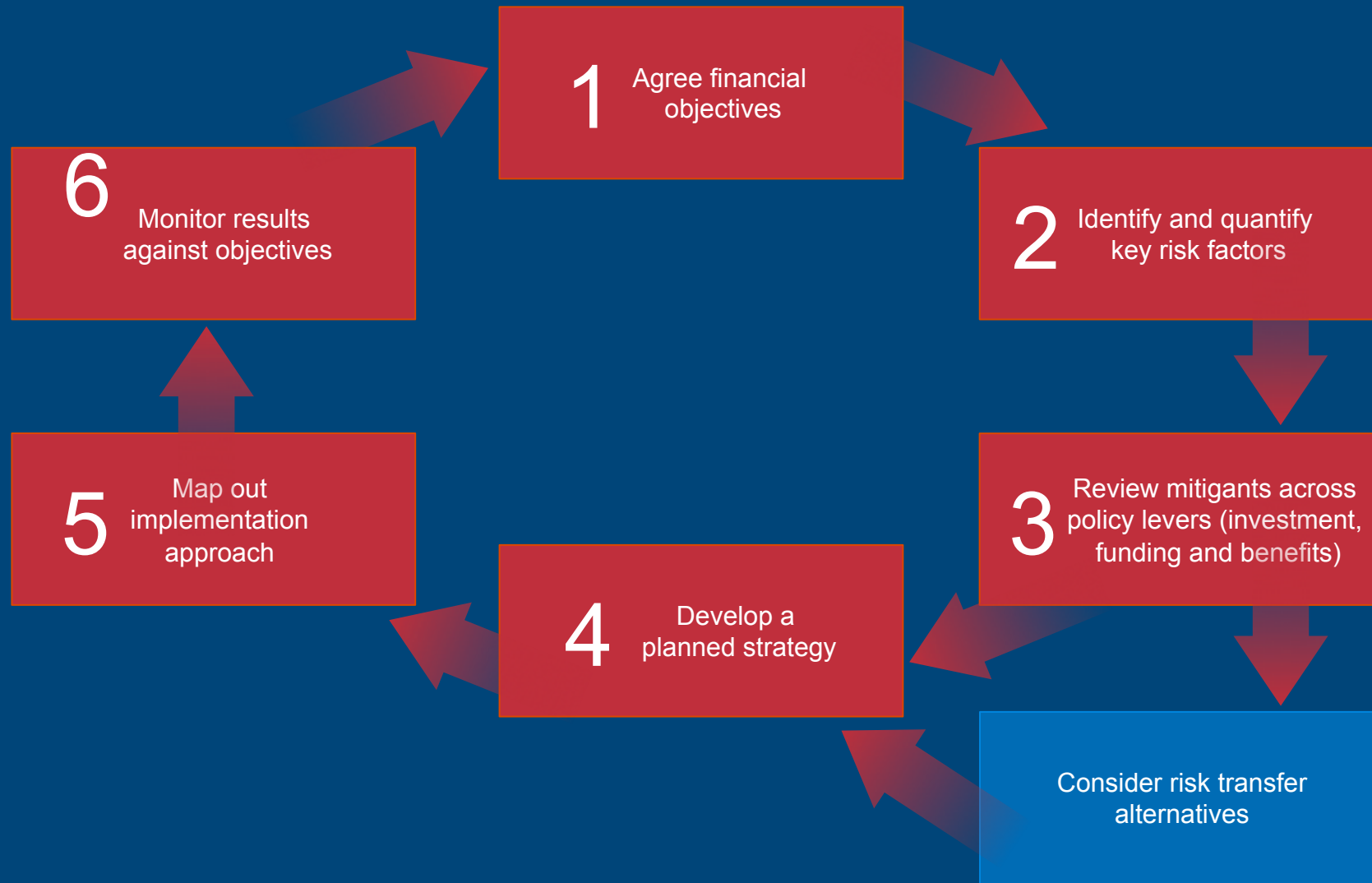
# Credit quality is deteriorating

## Corporate credit rating trends (S&P rating changes - UK)



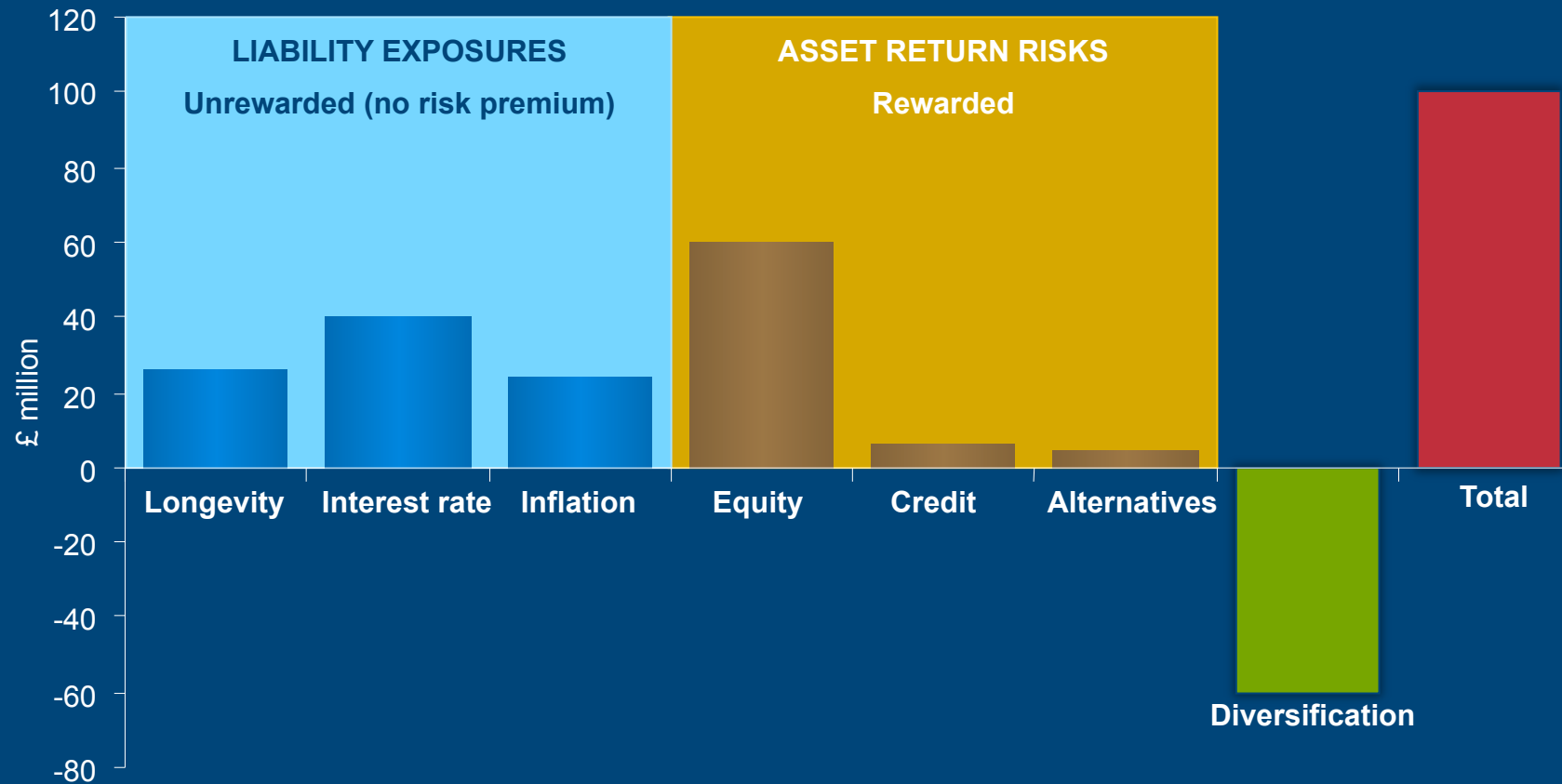
Source: Bloomberg

# Strategic framework for financial risk management

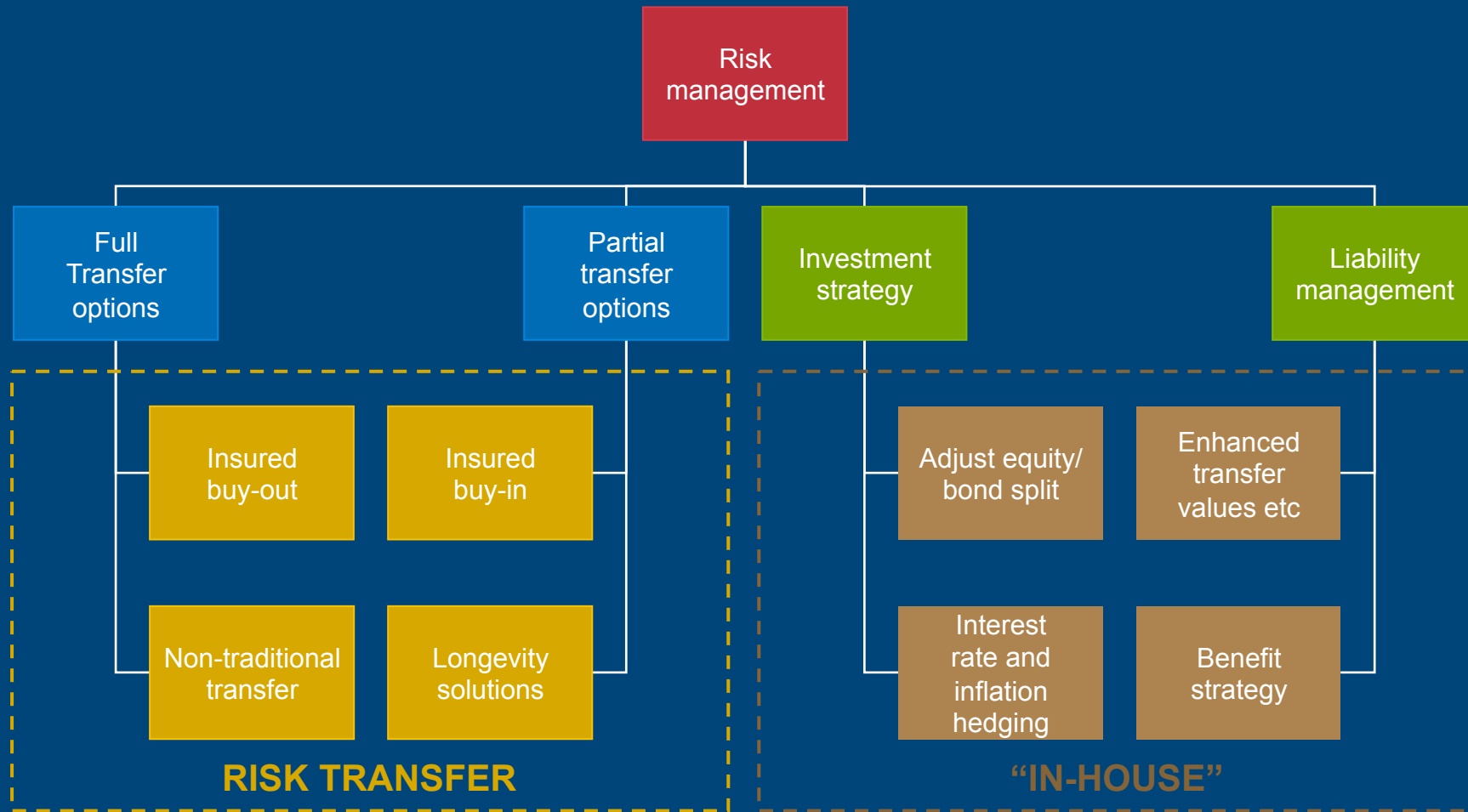


# Quantify risks

## Sources of 3 year value at risk



# The broad array of alternatives



## Example of corporate pensions strategy

### Funding

Additional contributions to be paid of £Xm per annum for next three years

### Investment strategy

Additional funding to be used to allow gradual investment risk reduction, with annual value-at-risk being halved over the three year period

### Covenant

Contingent assets to be reviewed when current borrowings paid down

### Mortality

Investigate mortality risks with a view to hedge as soon as market is active and pricing is deemed opportunistic

### Benefit changes

To be avoided as far as possible

### Liability management options

Enhanced transfers to be explored further and implemented when AA yields mean no accounting strain

## DB pensions:

helping sponsors become a 'risk-intelligent enterprise'

### Key messages:

For pension schemes,  
circumstances truly unprecedented

Many sponsors are now wishing  
to understand pension risk better  
and manage it

A structured risk review process  
provides a means of identifying  
bespoke action plan