

IMPLEMENTING ERM



RETIREMENT RISK SOLUTIONS

THE ISSUE

Senior financial executives across a range of industries find themselves grappling with a common challenge: managing the financial risks of their retirement plans. In the current environment, the risks inherent in defined benefit pension and retiree welfare plans can contribute to financial volatility and threaten financial performance. The issue is further complicated by the fast-changing global regulatory landscape surrounding defined benefit pension plans.

The magnitude of investment and interest-rate risk embedded in pension plans is substantial. An analysis of 300 major companies (*Exhibit 1*) indicates a combined risk of more than \$700 billion in the aggregate if plan assets underperform and discount rates decline meaningfully.

With so much on the line, financial executives are looking for ways to assess and address these risks in relation to their companies' broader risk profile and strategies.

By and large, conventional plan management approaches fall short. For instance, many companies attempt to address their pension financial risk by freezing their pension plans. But this decision rarely solves the problem. The long "tails" of such plans mean that the sponsoring company's risk exposure will continue far into the future. Moreover, corporate risk management and retirement program governance are often treated separately — making it less likely that the sophisticated hedging techniques used to mitigate other

corporate risks will be applied to their retirement plan risks.

THE TOWERS PERRIN APPROACH

At Towers Perrin, we not only help companies identify and measure retirement risk, we help them develop and deploy practical, proactive techniques that align their pension and retiree welfare program risk strategies with their overall business objectives — enabling them to achieve a level of control over the impact of their pension plan on their future financial performance.

As part of this approach, we help our clients assess and implement the financial products and solutions that best suit their needs, drawing upon alternatives developed by our own experts as well as

EXHIBIT 1

(\$US billions)	One-Year Horizon — Equity Returns			
	26.5% (Baseline + σ)	9.5% (Baseline)	-7.5% (Baseline - σ)	-24.5% (Baseline - 2 σ)
	PV Contributions + Change in Funded Status	PV Contributions + Change in Funded Status	PV Contributions + Change in Funded Status	PV Contributions + Change in Funded Status
7.0% (Baseline + σ)	(437)	(235)	(32)	170
6.0% (Baseline)	(260)	(58)	144	346
5.0% (Baseline - σ)	(59)	143	346	548
4.0% (Baseline - 2 σ)	170	373	575	777

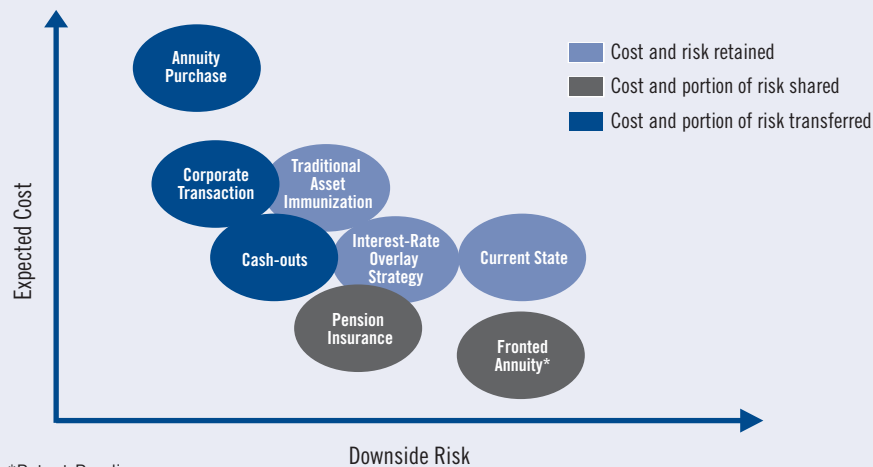
Possible stranded surplus, which illustrates limited upside potential

\$404 billion gap for one σ change in asset return and one σ change in discount rate

\$835 billion gap for two σ change in asset return and two σ change in discount rate

EXHIBIT 2

What steps can XYZ take to manage pension risks?



by insurance companies, banks and other financial institutions (*Exhibit 2*). Because retirement plans aren't static, we can also serve as our clients' ongoing partner, continually monitoring the financial environment and industry trends to keep their plans on track. Simply put, we help our clients manage their risk so they can focus on their business.

We can work with you to explore the full range of available and emerging risk management services, including settlement and risk transfer options as well as liability-driven investment and financial structuring options for ongoing plan management. We also help clients:

- Assess retirement financial risk in a broader enterprise framework
- Set funding and contribution policy, improve and align plan governance, and enhance global reporting and monitoring
- Make the business case for action up and down the company's leadership ranks
- Explain their risk management strategies to rating agencies and the investment community in a way that these audiences understand and appreciate.

Towers Perrin brings clients a wide range of experience in retirement and health and welfare plan financial management as well as broader enterprise risk management.

A TRUSTED PARTNER

Towers Perrin is the leading actuary for *Fortune* 500 companies and has been developing pension and retiree welfare risk strategies for more than 20 years. We are also the leading financial risk management advisors to insurers (whose equity and interest-rate risk mirror pension plan risk). This unique combination of experience in retirement plans, capital markets and financial risk management has helped us develop the expertise necessary to manage the risks of defined benefit pension plans as well as retiree medical plans.

Towers Perrin has a strong track record of innovation and offering clients new, sophisticated tools to help manage their pension portfolios. These include:

- A patent-pending captive solution

- Our proprietary risk modeling and monitoring tool, The Cost and Risk Management Channel
- Customized liability-driven investment strategies, including one of the earliest implementations of interest-rate overlay strategy for pension risk management.

ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm provides innovative solutions to client issues in the areas of human resource strategy, design and management; actuarial and management consulting to the financial services industry; and reinsurance intermediary services.

For more information about retirement risk solutions or to discuss the financial and risk management needs of a defined benefit pension plan, please contact:

Sylvia Pozezanac (U.S.)
sylvia.pozezanac@towersperrin.com

Robert Bernier (U.S.)
robert.bernier@towersperrin.com

Mitchell Cole (U.S.)
mitchell.cole@towersperrin.com

Donald Etzbach (U.S.)
donald.etzbach@towersperrin.com

John Manion (Europe)
john.manion@towersperrin.com

Eric Palley (U.S.)
eric.palley@towersperrin.com

Stuart Roth (U.S.)
stuart.roth@towersperrin.com

Dave Suchsland (U.S.)
dave.suchsland@towersperrin.com

Travis Winkels (U.S.)
travis.winkels@towersperrin.com