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Liability **Watch**

Innovation in risk management



Innovation in risk management

Recent performance of the financial markets has highlighted just how dramatically the **funding position** of pension funds can **change** over a very short period.

Managing risks

It has also shown that keeping your eye on the assets alone is not enough. With rising liabilities, large deficits, increased longevity and greater maturity of pension funds, risk management in pensions requires a balanced view of both the assets and the liabilities. Corporate behaviour is now influenced in the short term by the increased attention from credit rating agencies and analysts to accounting deficits (and their volatility). Business planning and the desire for stable pension contributions, on the other hand, requires a focus on the long-term factors affecting the cost of the benefit promise and their potential impact on company cash flows. Pension scheme members and trustees increasingly seek greater understanding, not just of the employer's ability to deliver in the long term, but also on the security of their benefits in the short term if the scheme should discontinue. Risk management and good governance, in the current environment, requires both the sponsoring employer and trustees to keep a close watch over all these factors.

Liability Watch is a new addition to our set of modelling tools designed to assist with closer monitoring of assets and liabilities.

Helping you to manage your risks

Liability Watch is available to both clients and non clients of Watson Wyatt, delivering information in sufficient depth to help identify risks and issues that need to be managed in a timely fashion.

If your interest in the company's pension commitments is confined to the broad policy issues, you may be interested in quick and regular updates of the headline measures:

- for reporting at board level
- to address questions from the investment community

- for a better understanding of pension commitments you may be inheriting during acquisitions
- to monitor triggers for transitioning to a new asset strategy.

Alternatively, you may be interested in more informed communications between your pensions, finance and risk teams to aid better planning:

- to understand the current accounting position against your risk thresholds and the range of likely outcomes by the end of the financial year
- to identify whether prudence margins in the funding strategy are under strain.

Whatever your needs, the chances are that you initially want a platform for quick and regular, if approximate, monitoring of your pension risk under changing financial conditions and to understand how short-term volatility may be impacting on your long-term investment, funding and risk management strategies.

Liability Watch

Watson Wyatt's Liability Watch is designed to help company management and trustees monitor their pension risk on a regular basis. Our proprietary software allows approximate funding positions to be tracked simultaneously on accounting, funding and discontinuance bases from the dates of the previous accurate valuations to the present date. The results of your most recent accounting and funding valuations are used as the starting position, but the software can be re-calibrated easily at any time to accommodate new information on assets, liabilities, payroll and cash flows. In addition, you can opt to include stochastic projections from the present date, which illustrate the volatility of your scheme and the possible range of outcomes over the next year.

The results are displayed in the form of easy to understand tables and graphs, as shown in **Figure 1** which are updated automatically to allow for changes in financial markets and highlight the main factors contributing to changes in the financial position. They can be used on a stand-alone basis for your internal needs or supplemented by additional commentary from your consultants.

Key features of Liability Watch include:

- tracking of funding levels from the date of the last valuation to the present day
- simultaneous tracking on accounting, funding and discontinuance bases
- accommodates new information at any time
- reporting available on a daily basis
- all results presented as easy to understand graphs and tables
- detailed commentary available from our consultants
- one-year stochastic projection option showing potential range of outcomes.

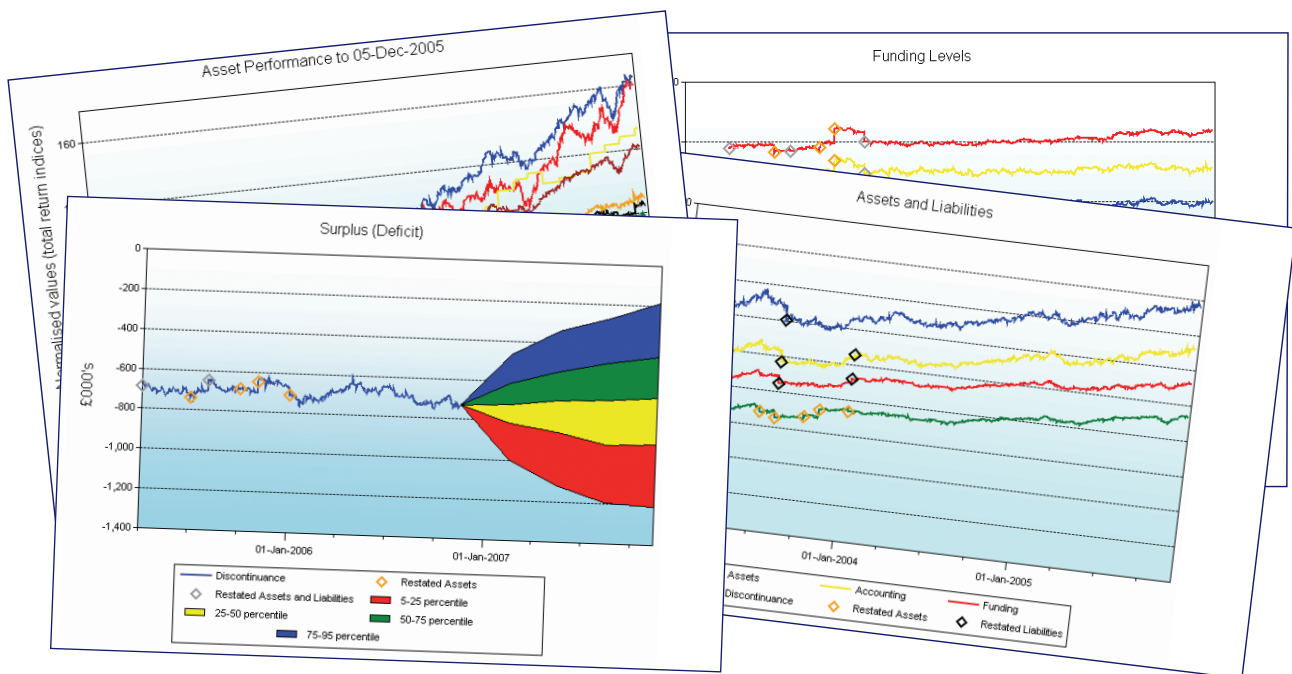
Other services include:

- IVPro – allows forward stochastic projections of your key pension fund statistics over longer periods

to illustrate the risks and long-term implications on your funding levels and contribution rates of your current funding and asset strategies, and to understand the effect of alternative strategies through ‘what if’ modelling.

- Workforce Pro – allows you to take a closer look at how your workforce demographics may change in the future due to natural wastage or as a result of particular recruitment, workforce management and M&A activity, and to understand the impact of these changes on your pensions commitments.
- Return Pro – enables you to track how the margins for prudence that are implicit in your funding strategy are changing due to changes in financial conditions, and to understand the potential consequences on funding levels and contribution rates of restoring previous levels of prudence.
- Pension Risk Indicators – give you a quick grasp of the importance of your pension promises to your business and their potential to affect the key measures of business performance.
- AssetWatch – a suite of investment monitoring services designed to give you greater insight into the performance of your pension scheme assets and investment managers.

Figure 1 | Sample of Liability Watch graphs



locations

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