



Pension Obligation Risk

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What is Pension Obligation?

IAS 19 Basis

Value of fund assets at fair value	100
less	
Obligations incurred to date <i>discounted</i> at AA rate	<u>(114)</u>
Deficit	(14)

NB - Obligation computation requires assumptions about future inflation and longevity.

Principal Risks

Equity/Asset price change	30%
AA Bond rate changes	35%
Inflation	25%
Longevity	10%

Regulatory Requirements

Pillar 1

Add back to Capital Resources any deficit, but then deduct additional contributions – as agreed with Trustees – over next five years.

Pillar 2

Consider additional contributions beyond five years and the impact of further deterioration of the deficit.

A possible approach

Current Deficit	14
Add VaR @99.9% One Year	35
Add -on for longevity @99.9% confidence	<u>8</u>
Potential Deficit in 1 year	57
Contributions necessary to close in 10 years	30
Deduct those already agreed (i.e. Pillar 1)	<u>(3)</u>
Further contributions implied by risk gross of tax	27
Net of Tax Relief = possible Pillar 2 capital charge	19

..but then deduct quantified impact of management actions