

Derisking your pensions

Over the past few years, pension funds have become an increasingly important issue for companies. A combination of tightened accounting regulations and dramatic market fluctuations has highlighted as never before the risks inherent in many pension funds. Despite this fact, the importance of corporate pensions as a benefit is only likely to rise, as people live longer and as state pensions decline. It is therefore important that companies can preserve the benefit of pensions while removing or reducing the risk.

Removing volatility, protecting your benefits

Derisking international pensions

What is pension risk?

The underlying risk for any pension fund is that the assets available are not sufficient to cover its liabilities. Such a shortfall may lead to the sponsoring company having to make unexpected and potentially crippling additional payments. This volatility is in itself an additional risk. There are many reasons why a company's pensions may be at risk and it is important to distinguish between the different causes in order to be able to find an appropriate solution.

International pension risk – how complexity increases risk

Companies operating pension plans in several countries face an additional element of risk: due to differences between local regulations and international reporting standards (IFRS/FAS), a sponsoring company may have a different and even conflicting view of the state of its different pension funds. In addition, although the sponsoring company is responsible for the potential consequences of its international pension risk, it is often difficult to coordinate and control the different pension funds in each country.

How to control pension risk

The first step to controlling pension risk is to identify which pension risks are present across the company. In addition, different companies will have different tolerance for risk. It is important therefore to address all risks and identify which need to be removed or controlled. Some companies may wish to remove all pension risk in order to be able to concentrate on their business. Other companies may wish to take some risk but to remove inflation, interest or longevity risks. Using the different tools available, companies can now derisk in stages, by country or by plan, removing risk over time.

Reducing pension risk – dedicated solutions

- **Liability Driven Investment (LDI)** – LDI allows a pension fund to remove unrewarded interest and inflation risk by matching its liabilities with assets.
- **Longevity swaps** – Longevity swaps enable pension funds to protect themselves against the risk that their employees will live longer than previously predicted. Longevity swaps allow companies to reduce the volatility of their pension plans.

'For many plan sponsors, pension risk is no longer simply an inconvenience but an issue of enterprise-threatening importance.'

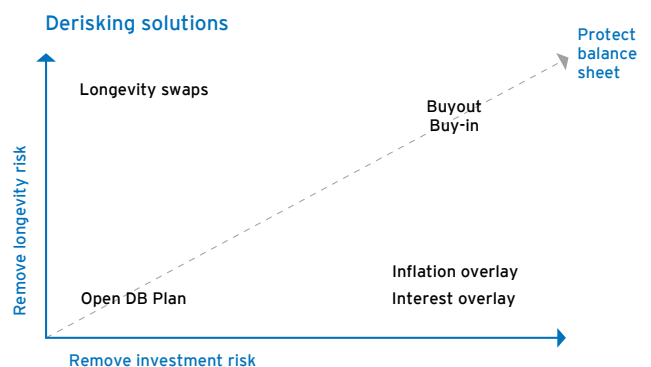
Hewitt Associates, 'Assessing the real impact of pension risk', Benefits & Compensation International 38, 2009.



- **Pension buy-ins** – Buy-ins enable companies to derisk distinct groups (or cohorts) of members without discriminating against other members. Buy-ins are insurance policies that are regarded as a separate asset class on the pension fund balance sheet. They can be implemented by companies with pension funds that are not fully funded and enable companies to use their available resources in the most effective fashion.
- **Pension buyouts** – Pension buyouts remove all pension risks by enabling a company to completely transfer the accrued pension liabilities of a defined benefit scheme to another provider in return for a premium. A number of solutions have been developed, including phased buyouts (where liabilities are transferred in agreed stages). For companies looking to perform a buyout, a pension buy-in can be used as a stepping-stone.

A broad range of derisking solutions

AEGON Global Pensions identifies best practices and products in all of the markets in which AEGON operates in order to help our clients around the world. For example, in order to help companies to reduce or remove pension risk, we offer a broad range of derisking solutions in the three most important Defined Benefit pension countries in the world – the US, UK and the Netherlands. By working with AEGON Global Pensions, multinational companies gain the benefit of our international footprint and expertise ■



Derisking your pensions:

- Increased control over corporate balance sheet and cash flow
- Broad range of derisking solutions in the UK, US and the Netherlands
- Focus on core business
- Control costs and risks

Working with AEGON Global Pensions

AEGON Global Pensions is part of AEGON, an international life insurance, pension and investment company with more than 40 million customers, 25,000 employees and over €100 billion in pension assets. Through our network of strategic alliances with international partners, AEGON Global Pensions provides multinational companies with access to pensions solutions and expertise in around 20 key countries.

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