

viewpoint

PENSION FINANCIAL CONTROLS

Year-end pension financial reporting deadlines are on the horizon. And no doubt the process will continue to command great effort and, especially for multinational companies, an increasingly sharper focus on global best practices. Efficiently



developing the required pension financial reporting data is particularly complex and relevant for the auto industry.

Watson Wyatt Worldwide helps a wide range of global companies to coordinate the actuarial, accounting and disclosure information required for pension financial reporting and has observed trends in this critical area. Don Elbaum, senior retirement consultant for Watson Wyatt in Southfield, Mich., discusses the issues.

How do shifts in pension design affect reporting for these programs?

The auto industry's move from traditional defined-benefit plans to 401(k)-type programs, primarily for salaried workers, has been significant. But phasing out an active plan merely stops the inflow of new participants. Substantial pension liabilities and assets for employees still covered by the old plan will remain for many years to come. In fact, the demographic profiles of these frozen or closed plans is likely to evolve more rapidly and require even more careful attention to assumptions and investments.

What changes do you see in pension-related financial reporting efforts?

There is more up-front work among companies to enhance their processes, controls and documentation on a global scale. Human Resource department staffs are working harder to understand the philosophy and operational aspects of their overseas units' pension arrangements—and to make sure that participant data is accurate. Similarly, corporate finance teams are striving for greater internal clarity, consistence and a top-down approach to coordinating key assumptions and accounting practices globally.

Why the global focus?

Pension liabilities may be highest in the U.S., but they also can be significant elsewhere. Ultimately, the CEO of a multinational who signs off on pension financial reporting does so globally. These companies—even decentralized ones—recognize the need to step up oversight of the drivers of the

pension financial information for their global pension plans. Sometimes the same underlying assumptions or processes can be applied in multiple countries, thereby simplifying and strengthening the company's efforts.

What is driving this greater attention to financial reporting?

It's no secret that Sarbanes-Oxley requirements have changed the regulatory landscape dramatically. At the same time, the U.S. Internal Revenue Service and Department of Labor are conducting more audits of pension plans and their administration. Executives recognize there can be a competitive advantage for the company that clarifies, simplifies and streamlines how it develops the required information. It simultaneously reduces the time investment and improves quality.

Haven't companies been doing this all along?

Absolutely. I'm talking about companies that have done the right thing and recognize that the higher levels of guidance, scrutiny and risks in this area call for measures beyond business as usual.

The pension area is especially sensitive for the auto sector, where aggregate pension liabilities at the end of 2005 were about \$170 billion—or approximately twice the sector's total market capitalization.

What changes in practices should companies be thinking about?

In today's global economy, forward-looking companies have taken a fresh look at their overall pension financial processes. They are looking for global consistency, greater transparency and better risk management. These plan sponsors have reviewed their plans for compliance with local laws and have enhanced controls to manage future risk.

How can Watson Wyatt help?

We offer a very extensive knowledge about best practices for the financial management of global retirement programs for multinationals.

Click [HERE](#) to hear more from Don Elbaum.

We can help companies structure their retirement programs, evaluate the changing nature of their liabilities and help them craft the process enhancements they need.

To learn more about Watson Wyatt Worldwide, visit www.watsonwyatt.com or contact Don Elbaum at (248) 936-7626 or don.elbaum@watsonwyatt.com.