



# ***DE-RISKING FORD'S PENSION PLANS***

***2010 Alexander Hamilton Awards  
Retirement and Benefits Category***



# ***FORD PENSION DE-RISKING BACKGROUND AND PROCESS***

- **Large plan obligations -- if assets are insufficient, sponsor (Ford) must contribute**
- **Long-standing investment objective to maximize returns; asset allocation dominated by equities (70%)**
- **2007 – new funding regulations and Ford facing increasing challenges**
- **Identified a better investment objective and asset allocation -- focusing on reducing funding shortfalls; reduced exposure to primary risks (equities and interest rates)**
- **Key actions**
  - **Rebalanced equity to fixed income**
  - **Began multi-year process to diversify residual equity risk into alternative assets**
  - **Hedged interest rate risk**
- **Implementation continues**



# **FORD PENSION FUNDS -- PROFILE**

## **YEAR-END 2009**

	<u><b>U.S.</b></u> <b>(Bils.)</b>	<u><b>Worldwide</b></u> <b>(Bils.)</b>
<b>Assets</b>	<b>\$ 39</b>	<b>\$ 56</b>
<b>Liabilities</b>	<u><b>(45)</b></u>	<u><b>(68)</b></u>
<b>Shortfall</b>	<u><b>\$ (6)</b></u>	<u><b>\$ (12)</b></u>
<b>2009 Benefits Paid</b>	<b>\$ 3.9</b>	<b>\$ 5.4</b>
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<b>Memo:</b>		
<b>Participants</b>	<b>~325,000</b>	<b>~550,000</b>



# ***DRIVERS OF FORD PENSION DE-RISKING***

	<u>Effect</u>
<ul style="list-style-type: none"><li>• <b>Funding Regulations (PPA-U.S.; similar changes in UK / Canada)</b></li></ul>	<b>Accelerated funding requirements</b>
<ul style="list-style-type: none"><li>• <b>Operating and financial challenges facing plan sponsor</b></li></ul>	<b>Increasing demands on cash reserves</b>



# **STRATEGY COMPARISON**

	<u>Before</u>	<u>Now</u>
<b>Investment Objective</b>	<b>Maximize Returns</b>	<b>Minimize Funding Shortfalls</b>
<b>Time Horizon</b>	<b>Long</b>	<b>Shorter</b>
<b>Tolerance for Volatility</b>	<b>High</b>	<b>Low</b>
<b>Asset Allocation</b>	<b>70% Equity 30% Long Duration Bonds</b>	<b>30% Equity 45% Long Bonds 25% Alternatives</b>
<b>Interest Rate Risk</b>	<b>Cash Bonds -- 30% Hedge</b>	<b>Bonds &amp; Interest Rate Overlay -- Up to 80% Hedge</b>



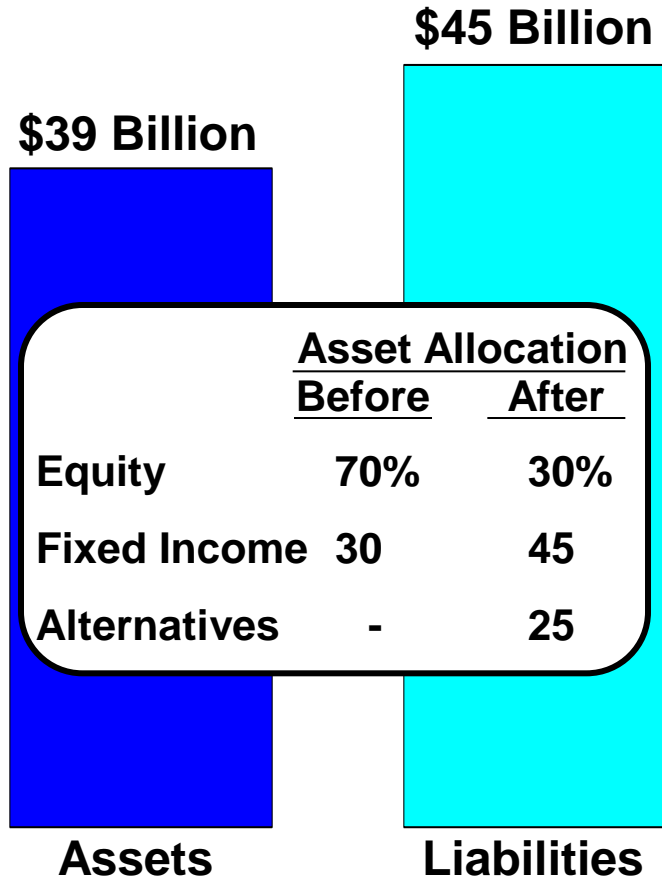
# ***U.S. PLAN OUTCOMES*** \*

	<b><u>Without These Actions</u></b>	<b><u>With These Actions</u></b>
<b><u>Funded Status (Year-End 2009)</u></b>		
- Amount (Bils.)	<b>\$(13)</b>	<b>\$(6)</b>
- Percentage	<b>72%</b>	<b>86%</b>

\* Similar strategies for UK and Canadian plans

# DE-RISKING U.S. PENSION PLANS -- 2007 - 2009

Year-End 2009



- In 2007, changed focus of asset management to reducing risk of funding shortfalls instead of maximizing returns
- Took steps to lower equity and interest rate risk
- Reduced mix of equities and increased mix of fixed income
- Increased investments in alternatives
- Launched derivative overlay strategy to hedge interest rate risk

**We Implemented Actions To De-Risk U.S. Pension Plans  
And Saved \$7 Billion In Funded Status For The 2007-2009 Period**